British Columbia Liquor Distribution Branch

2005 | 2006 ANNUAL REPORT

British Columbia Liquor Distribution Branch

2005 | 2006 ANNUAL REPORT

VISION THAT OUR CUSTOMERS HAVE THE OPPORTUNITY TO DISCOVER, ENJOY AND SHARE THE EVOLVING WORLD OF BEVERAGE ALCOHOL

MISSION TO BE A CUSTOMER-FOCUSED, PROFITABLE RETAILER AND WHOLESALER OF BEVERAGE ALCOHOL, DEDICATED TO INNOVATION, EXEMPLARY SERVICE, HELPFUL PRODUCT KNOWLEDGE AND SOCIAL RESPONSIBILITY

VALUES

EXEMPLARY SERVICE: WE TAKE PRIDE IN THE QUALITY OF OUR WORK. WE STRIVE FOR EXCELLENCE IN SERVING CUSTOMERS AND CO-WORKERS

PUBLIC SAFETY AND SOCIAL RESPONSIBILITY: WE ENCOURAGE AND SUPPORT THE RESPONSIBLE USE OF BEVERAGE ALCOHOL

INTEGRITY: WE TAKE RESPONSIBILITY AND ARE FULLY ACCOUNTABLE FOR OUR ACTIONS, DECISIONS AND BEHAVIOUR; WE ARE OPEN, HONEST AND FAIR

RESPECT: WE TREAT ALL INDIVIDUALS WITH FAIRNESS, DIGNITY AND RESPECT

TEAMWORK: WE SUPPORT ONE ANOTHER TO ACHIEVE CORPORATE GOALS

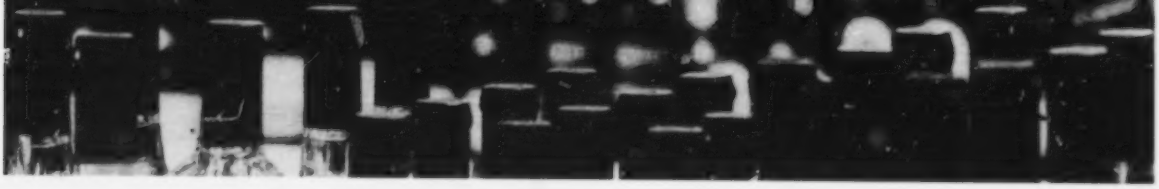
INNOVATION: WE ENCOURAGE OUR PEOPLE TO FIND INNOVATIVE AND CREATIVE WAYS TO IMPROVE OUR BUSINESS

"I am pleased to report that the fiscal year 2005/06 ended with the British Columbia Liquor Distribution Branch delivering a net income of $800 million . . . a $21 million increase over the previous fiscal year . . ."

Jay Chambers
General Manager

Contents

General Manager's Message	1
Organizational Overview	2
2005/2006 Year In Review	5
Financial Report	21
Appendices & Glossary	44
Contact	55



2007-01298/

General Manager's Message to the Minister Responsible

The Honourable John Les, Minister of Public Safety and Solicitor General:

I am pleased to report that the fiscal year 2005/06 ended with the British Columbia Liquor Distribution Branch (LDB) delivering a net income of $800 million, compared to $779 million the previous year. This is a $21 million increase over the previous fiscal year—and $21 million over our Service Plan target for the year.

Total sales for the year were $2.25 billion, an increase of $101 million or 4.7 per cent over the previous year, and $8 million or 0.4 per cent higher than our Service Plan target. Fiscal 2005/06 saw increases in most product categories: 5.6 per cent in spirits, 10 per cent in wine and 2.1 per cent in beer.

In 2005/06, the private retail system continued to expand. During the year, the number of licensee retail stores (LRSs) increased to 592 from 534, and as of March 31, 2006, there were a total of 1,215 government and private liquor stores in the province.

As part of our ongoing commitment to set the standard for excellence in the retailing of beverage alcohol, the LDB upgraded eight government liquor stores and opened two new Signature Stores in Abbotsford and Surrey.

The LDB continued to make public safety and social responsibility a key priority, in addition to our mission to be a customer-focused, profitable retailer and wholesaler of beverage alcohol. Our Support Dry Grad campaign, which is part of the LDB's commitment to promoting zero consumption for minors, raised an unprecedented $403,351, thanks to the generosity of government liquor store customers throughout British Columbia.

The 2005/06 LDB Annual Report was prepared under my direction in accordance with the Budget Transparency and Accountability Act. I am accountable for the contents of this report, including the selection of performance measures and how the results have been reported. The information presented reflects the actual performance of the LDB for the 12 months ended March 31, 2006. All significant decisions, events and identified risks, as of May 24, have been considered in preparing the report.

The information presented is prepared in accordance with the BC Reporting Principles and represents a comprehensive picture of our actual performance in relation to our service plan. The measures presented are consistent with the LDB's mission, goals and objectives, and focus on aspects critical to the organization's performance.

I am responsible for making certain that internal controls are in place to ensure performance information is measured accurately and in a timely fashion. This report contains estimates and interpretive information that represent the best judgment of management. Any significant limitations in the reliability of data are identified in the report.

Jay Chambers
General Manager
May 24, 2006

Organizational Overview

Governance

The Liquor Distribution Branch (LDB) is responsible for the importation, distribution and retailing of beverage alcohol in British Columbia and the operation of government liquor stores and distribution centres in the province. The LDB, under the authority of the *Liquor Distribution Act*, has the sole right to purchase beverage alcohol, both in and out of British Columbia, in accordance with the *Importation of Intoxicating Liquors Act (Canada)*.

The LDB reports to the minister responsible, the Minister of Public Safety and Solicitor General, and follows Crown Agencies Secretariat guidelines for budgets, service plans and annual reports.

Alignment with Government's Strategic Plan

As with all branches and agencies of government, the LDB is aligned to support and implement the government's goals. The LDB estimates that it will generate $2.5 billion in net income to government over the next three years; this revenue will assist government in achieving its goals to:

1. Make British Columbia the best-educated, most literate jurisdiction on the continent.
2. Lead the way in North America in healthy living and physical fitness.
3. Build the best system of support in Canada for persons with disabilities, those with special needs, children at risk and seniors.
4. Lead the world in sustainable environmental management, with the best air and water quality, and the best fisheries management, but none.
5. Create more jobs per capita than anywhere else in Canada.

The *Liquor Distribution Act* specifies that the minister must appoint a general manager and that the general manager is responsible for administering the *Act*, including the general control, management and supervision of liquor stores, subject to the orders, directions and supervision of the minister. The *Act* further clarifies the powers of the general manager and delineates the administration of the LDB and the operation of its liquor stores.

Business of the Liquor Distribution Branch

With a workforce of approximately 3,500 full and part-time employees, the LDB manages its retail and wholesale business through the operation of:

- 208 government liquor stores throughout the province;
- two distribution centres: one in Vancouver and one in Kamloops; and
- a head office facility in Vancouver.

The LDB issues appointments or authorizations and enters into contracts with the private sector for the operation of private retail outlets, such as licensee retail stores (LRSs), rural agency stores (RASs), beverage alcohol manufacturer stores, independent wine stores and duty-free stores. The LDB is also responsible for the appointment of private retail agency stores.

As of March 31, 2006, there were a total of 1,007 private liquor stores in the province, including:

- 592 LRSs;
- 230 RASs;
- 135 on-site British Columbia manufacturer stores (wineries, breweries and distilleries with retail shops);
- 27 off-site British Columbia winery stores;
- 12 independent wine stores; and
- 11 duty-free stores.

Organizational Overview

The LDB purchases beverage alcohol from suppliers and manufacturers in British Columbia, other provinces and from around the world. Licensed manufacturing sites in British Columbia include 130 wineries, 45 breweries and brew pubs, and eight distilleries. The LDB buys products from more than 400 foreign and domestic manufacturers.

LDB Customers and Stakeholders

BC Liquor Stores averaged 780,000 customer visits each week in 2005/2006, making the LDB one of the province's largest retail organizations.

The LDB has both retail and wholesale customers; wholesale customers are comprised of licensee retail stores, rural agency stores, restaurants and pubs, and duty-free stores. Retail customers are the general public, who buy their product through the government liquor store network.

Our stakeholders include the people of British Columbia, their elected officials, our employees, our suppliers, and groups that share our concern for public safety.

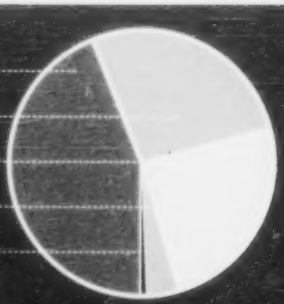
The LDB offers a broad selection of both international and domestic products, and our employees strive to provide exemplary service in assisting our retail and wholesale customers in finding the right products for their needs. As well, the LDB continually looks for ways to become more efficient in the management of our operating expenses.

Along with our government liquor stores, a variety of private retail outlets help to ensure that the public is well-served. The mixed public-private retail model not only gives our customers more choice, but also encourages the growth of the small business sector in British Columbia.

2005 | 2006 SALES BY PRODUCT CATEGORY

(TOTAL DOLLAR SALES)

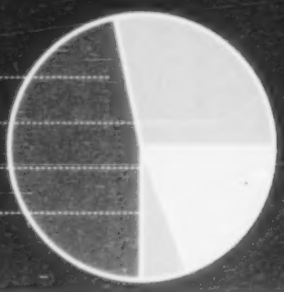
Beer	43.9 %
Spirits	27.0 %
Wine	24.4 %
Refreshment Beverages	4.2 %
Special Orders / Non-alcoholic	0.5 %



2005 | 2006 PROVINCIAL SALES BY SOURCE

(TOTAL DOLLAR SALES)

Government Liquor Stores	46.7 %
Licensee Retail Stores	28.5 %
Licensed Establishments	19.2 %
Agency Stores	5.6 %



To serve the interests of our customers and stakeholders, we:

- deliver quality products and services;
- distribute products and services through a variety of liquor retail venues throughout British Columbia;
- manage the importation, transportation, warehousing and sale of liquor in a fair and impartial manner;
- promote the safe and responsible use of beverage alcohol; and
- implement policies to ensure LDB workplaces are safe and free of harassment or discrimination.

To fulfill our responsibilities to the government and people of British Columbia, we:

- maximize revenue to the government of British Columbia;
- manage the LDB's business risks;
- ensure accountability of key business partners; and
- develop and implement programs and services aimed at deterring the sale of beverage alcohol to minors, those who appear intoxicated, or those who are believed to be buying for either of these parties.

Key Strategic Issues 2006/07

The Evolving Beverage Alcohol Business

The beverage alcohol retail model continues to adjust in British Columbia. Currently there are approximately 1,200 retail outlets in the province's public-private retail environment, with an opportunity for additional stores to open.

Excellence in Public Safety and Social Responsibility

The LDB's role as a socially responsible retailer of beverage alcohol extends beyond addressing the requirements of current legislation — initiatives include training programs for LDB employees and in-store responsible-use promotional activities in partnership with beverage alcohol suppliers. The LDB also works with other levels of government and stakeholder groups to develop and initiate programs designed to encourage the responsible use of beverage alcohol.

BC Liquor Stores

BC Liquor Stores are improving efficiencies and services to customers by offering an enhanced shopping experience and improvements to operations and administration.

Distribution/Wholesale

The distribution supply chain system continues to adjust to meet the demands of an expanded liquor retail network. The LDB is making changes to its distribution system that will improve services to wholesale customers and increase efficiencies in its stores.

Employee Engagement and Commitment

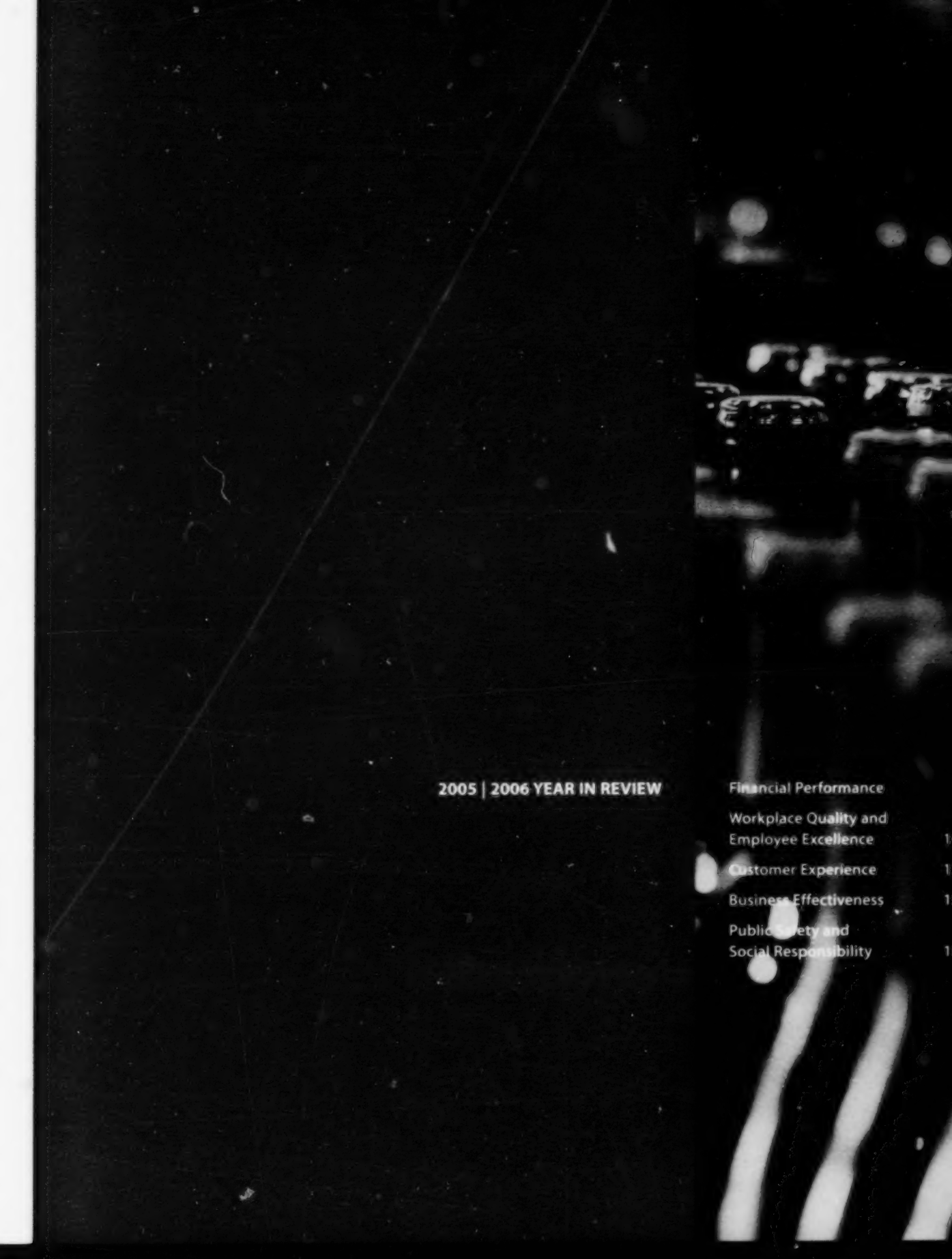
The LDB will continue to survey its employees to monitor engagement, satisfaction and commitment. The LDB has a low turnover rate, resulting in an experienced group of long-term employees. However, as these employees move closer to retirement, it is vital that the LDB has succession plans in place.

Investing in Technology

Improved technology is a key component of the LDB's ability to deliver efficient and effective service to retail and wholesale customers. The LDB must continue to invest in the upgrading and integration of its systems to improve services and efficiencies, with a focus on supply chain-related systems and information.

The British Columbia Wine Industry

The LDB, through its network of retail stores, is committed to expanding the profile and sale of British Columbia wines. The LDB will continue to partner with the provincial wine industry in the development of programs that showcase British Columbia wines.



2005 | 2006 YEAR IN REVIEW

Financial Performance

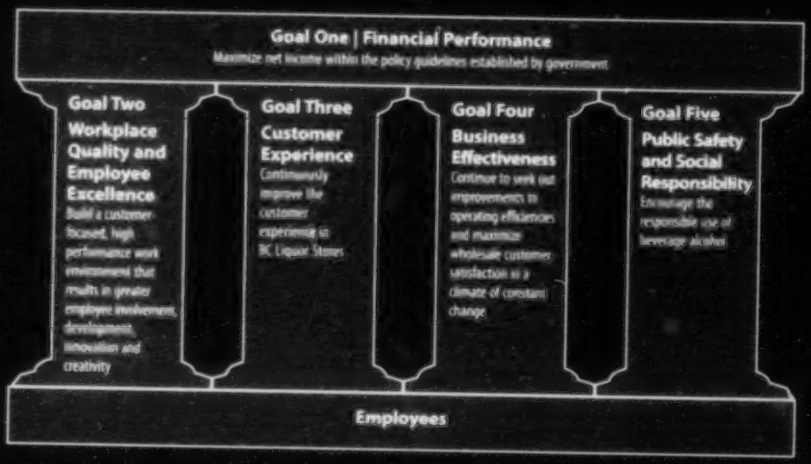
Workplace Quality and Employee Excellence 1

Customer Experience 1

Business Effectiveness 1

Public Safety and Social Responsibility 1

We organize our strategic priorities and key objectives around the concept of four pillars. Overarching these pillars is financial performance, and supporting them are our dedicated employees.

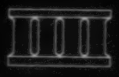

Goal One | Financial Performance
Maximize net income within the policy guidelines established by government
Goal Two
Workplace Quality and Employee Excellence
Build a customer-focused, high performance work environment that results in greater employee involvement, development, innovation and creativity
Goal Three
Customer Experience
Continuously improve the customer experience in BC Liquor Stores
Goal Four
Business Effectiveness
Continue to seek out improvements in operating efficiencies and maximize wholesale customer satisfaction in a climate of constant change
Goal Five
Public Safety and Social Responsibility
Encourage the responsible use of beverage alcohol
Employees

Over time, the LDB has developed a number of goals, performance measures and targets to assist us in determining how well we are achieving our Vision, Mission, and Values.

In addition to monitoring financial performance – which is crucial to all businesses – we also are concerned with how our performance is perceived by our employees, our wholesale and retail customers, and other stakeholders.

The performance measures also help to ensure we are operating the business efficiently in a socially responsible manner.

Further information on the measures used by the LDB can be found in Appendix A.



Financial Performance

Goal One | Financial Performance

Maximize net income within the policy guidelines established by government.

Performance Highlights

Sales of beverage alcohol continued on a strong trend in fiscal 2005/06. Total sales for the year were $2.2 billion, an increase of $8 million or 0.4 per cent over Service Plan targets and $101 million or 4.7 per cent over last year. Net income for fiscal 2005/06 was $800 million, exceeding the target by $21 million. Net income—total revenue less total expenses—is the LDB's financial contribution to the province of British Columbia.

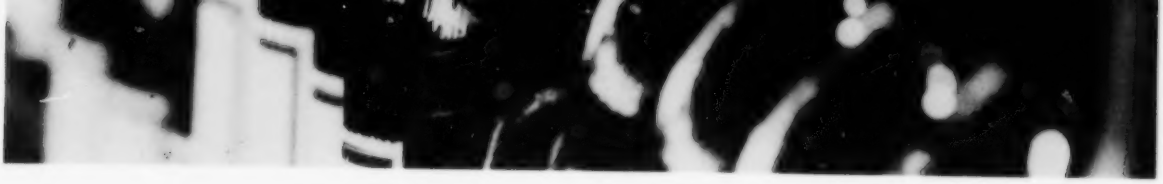
Sales in the wine and packaged beer categories performed ahead of Service Plan targets by 0.5 and 1.2 per cent respectively. The strong sales were a result of increases of 5.6 per cent in spirits, 10 per cent in wine, 2.1 per cent in beer, compared to fiscal 2004/05. Ciders and coolers, however, experienced a decline in sales of 2.9 per cent compared to fiscal 2004/05.

An increase of 58 licensee retail stores (LRSs) contributed to a 20.7 per cent increase in sales to those outlets. Total liquor outlets in the province increased by 75 from 1,140 to 1,215.

Please Note:

Future targets have been updated to reflect those published in the LDB's Service Plan for Fiscal Years 2006/07 – 2008/09.

Key changes were:
(Goal One) The financial targets were changed due to updated financial projections.
(Goal Two) The employee satisfaction and engagement targets were adjusted after initial survey results were ascertained.
(Goal Three) The number of Signature Stores were increased because there was a carry-over from the previous year.
(Goal Four) The number of LRSs receiving direct shipment was added; it was previously TBD (to be determined).

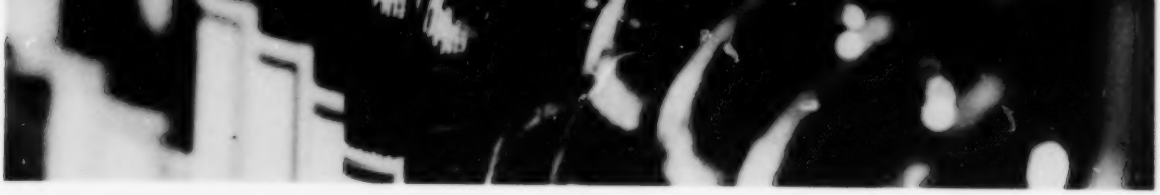


SALES BY MAJOR CATEGORY ($000s)

	2005/06	2004/05	2003/04	2002/03	2001/02	Change vs Previous Year $	Change vs Previous Year %
Domestic Spirits	367,055	354,337	336,258	323,847	306,006	12,718	3.6%
Import Spirits	239,504	220,059	201,012	189,735	179,303	19,445	8.8%
Total Spirits	**606,559**	**574,396**	**537,270**	**513,582**	**485,309**	**32,163**	**5.6%**
Domestic Wine	208,835	191,119	176,614	168,091	158,145	17,716	9.3%
Import Wine	339,195	307,079	272,267	248,566	232,719	32,116	10.5%
Total Wine	**548,030**	**498,198**	**448,881**	**416,657**	**390,864**	**49,832**	**10.0%**
Domestic Refreshment	50,468	52,167	52,850	53,810	56,152	(1,699)	-3.3%
Import Refreshment	44,397	45,524	40,018	36,947	29,946	(1,127)	-2.5%
Total Refreshment	**94,865**	**97,691**	**92,868**	**90,757**	**86,098**	**(2,826)**	**-2.9%**
Domestic Beer	828,443	824,458	779,492	740,077	721,081	3,985	0.5%
Import Beer	159,895	143,476	127,770	112,978	98,844	16,419	11.4%
Total Beer	**988,338**	**967,934**	**907,262**	**853,055**	**819,925**	**20,404**	**2.1%**
Miscellaneous/Special Orders	11,735	10,164	11,942	11,244	10,681	1,571	15.5%
Total Sales	**2,249,527**	**2,148,383**	**1,998,223**	**1,885,295**	**1,792,877**	**101,144**	**4.7%**

SALES BY MAJOR CATEGORY IN LITRES (000s)

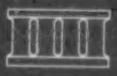
	2005/06	2004/05	2003/04	2002/03	2001/02	Change vs Previous Year Litres	Change vs Previous Year %
Domestic Spirits	15,154	14,779	14,390	13,965	13,322	375	2.5%
Import Spirits	8,214	7,638	7,207	6,821	6,454	576	7.5%
Total Spirits	**23,368**	**22,417**	**21,597**	**20,786**	**19,776**	**951**	**4.2%**
Domestic Wine	22,096	20,667	19,888	19,207	18,639	1,429	6.9%
Import Wine	22,731	21,162	19,199	17,965	17,052	1,569	7.4%
Total Wine	**44,827**	**41,829**	**39,087**	**37,172**	**35,691**	**2,998**	**7.2%**
Domestic Refreshment	12,245	12,508	12,825	12,911	13,582	(263)	-2.1%
Import Refreshment	7,472	7,652	7,000	6,613	5,282	(180)	-2.4%
Total Refreshment	**19,717**	**20,160**	**19,825**	**19,524**	**18,864**	**(443)**	**-2.2%**
Domestic Beer	234,273	236,108	237,148	231,805	233,949	(1,835)	-0.8%
Import Beer	36,339	32,624	29,429	27,208	24,409	3,715	11.4%
Total Beer	**270,612**	**268,732**	**266,577**	**259,013**	**258,358**	**1,880**	**0.7%**
Miscellaneous/Special Orders	201	199	207	209	272	2	1.0%
Total Sales	**358,725**	**353,337**	**347,293**	**336,704**	**332,961**	**5,388**	**1.5%**



Financial Performance Targets and Results 2005/2006

Objective:	Strategy:
1. Achieve or exceed net income targets	1. Grow sales and achieve operating efficiencies

Performance Measures	Targets	Achievement
Total sales ($ billions)	05/06 – $2.24 06/07 – $2.30 07/08 – $2.37	**$ 2.25 billion** **Target exceeded:** Sales are an important measure of financial performance as they directly impact our ability to achieve or exceed net income targets. Total sales in fiscal 05/06 exceeded target by $8 million. Previous years: 04/05 – 2.15 03/04 – 2.00
Gross Margin ($ billions)	05/06 – $1.02 06/07 – $1.05 07/08 – $1.08	**$ 1.02 billion** **Target achieved:** Gross margin is an important measure of financial performance as it represents the funds remaining after the cost of product has been paid. These funds are applied to pay for operating expenses with the excess being the contribution to government. Previous years: 04/05 – 1.00 03/04 – 937
Operating expenses ($ millions)	05/06 – $244.7 06/07 – $257.3 07/08 – $265.4	**$ 242.4 million** **Target achieved:** Managing the operating expenses of the LDB is important to achieving the net income targets and is constantly monitored and analyzed. A number of favourable variances, employment expenses, building and administration expenses helped offset some additional costs incurred. Additional expenses included the increased use of credit cards and the signing bonus arising from contract negotiations. Previous years: 04/05 – 240.0 03/04 – 215.3
Net income ($ millions)	05/06 – $779.1 06/07 – $798.1 07/08 – $819.8	**$ 800 million** **Target exceeded:** Net income is $21.4 million ahead of target. This measure of financial performance, total revenue less total expenses, is the LDB's financial contribution to the province of British Columbia. Increased sales and managing employment expenses were the largest contributing factor in exceeding the target. Previous years: 04/05 – 778.6 03/04 – 726.7
Total LDB expenses as a percentage of total LDB sales	05/06 – 10.9% 06/07 – 11.2% 07/08 – 11.2%	**10.8%** **Target exceeded:** Managing operating expenses as a percentage of sales is an important financial index as it indicates the degree of efficiency attained by the LDB. Previous years: 04/05 – 11.2% 03/04 – 11.2%



Workplace Quality and Employee Excellence

Goal Two | Workplace Quality and Employee Excellence

Build a customer-focused high performance work environment that results in greater employee involvement, development, innovation and creativity.

Performance Highlights

Workforce – This year our enthusiastic staff continued to focus on providing excellent service to retail and wholesale customers.

Reviewing operating results and then standardizing work schedules and hours of operation in worksites throughout the province has resulted in significant gains in operating efficiencies for the LDB. Since the implementation last year, $6.5 million in employment savings can be attributed directly to the new work schedules.

The LDB has a high staff retention level. We have many long-term dedicated employees who possess a wealth of experience and knowledge. However, as with many organizations today, the LDB is facing an aging workforce. We are currently conducting succession and workforce planning to ensure the LDB continues to have valuable and well-trained staff for years to come.

Training and Development – Management and leadership training was provided to staff through interactive management programs ranging from basic supervisory skills to teamwork, change management and harassment prevention skills.

This year, the results of the Employee Engagement Survey were compiled and released in a report that was shared with every LDB employee. Specific objectives were identified and a plan is in place to address areas of employee concern.

Workplace Quality and Employee Excellence Targets and Results 2005/2006

Objective:

1. Continue to develop a customer-focused workforce that is knowledgeable, skilled, motivated and enthusiastic

Strategies:

1. Enhance staff skills through management development and employee training programs
2. Employ a competency-based recruitment process
3. Develop succession plans for key positions
4. Provide a safe, healthy and harassment-free workplace
5. Promote a results-oriented culture through an enhanced performance management and recognition process

Performance Measures	Targets	Achievement
Employee satisfaction and engagement	05/06 – 90% 06/07 – 70% 07/08 – 80%	57% **Target not met:** Fiscal 2005/06 served as a benchmark year for employee-satisfaction measurement. Going forward, the LDB will continue to strive for yearly improvement in this goal. Previous years: 04/05 – not measured 03/04 – not measured

Customer Experience

Goal Three | Customer Experience

Set the standard for excellence in the retailing of beverage alcohol.

Performance Highlights

British Columbia Vintners Quality Alliance (VQA) Wines – British Columbia's wine industry has experienced an unprecedented run of excellent vintages, and BC wines are continuing to grow in popularity – not only on domestic shelves but on the world stage. This year, BC VQA wines were once again featured prominently in all BC Liquor Stores.

In November, a special collection of premium British Columbia VQA wines, the "Best of BC", was released in selected LDB stores. The release covered 26 premium VQA wines that showcased some of the more spectacular vintages in recent years.

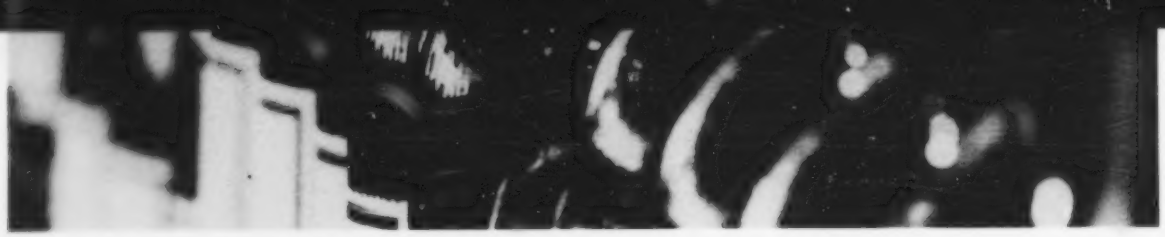
A VQA training workshop was held in October for BC Liquor Store VQA advocates and product consultants from across the province. The attendees in turn passed along their renewed sense of enthusiasm and product knowledge to local store staff and customers.

continued on page 14

Our Flagship Signature Store

This year renovations to our flagship Signature Store located at 39th & Cambie in Vancouver were completed. An enhanced shopping environment with special features provides customers with the opportunity to experience product demos and tasting seminars.

Signature BC LIQUOR STORES



Customer Experience Targets and Results 2005/2006

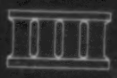
Objective:

1. Enhance the shopping experience for LDB retail customers

Strategies:

1. Revitalize the store network
2. Provide enhanced customer services
3. Improve customer access to British Columbia VQA wines

Performance Measures	Targets	Achievement
Total number of additional Signature Stores	05/06 – 11 06/07 – 12 07/08 – 5	2 **Target not met:** Various zoning, development and construction challenges have been experienced in the busy British Columbia construction marketplace. Previous years: 04/05 – 3 03/04 – n/a
Average retail customer transaction value	05/06 – $26.80 06/07 – $27.87 07/08 – $28.99	**$27.22** **Target exceeded:** BC consumers have a keen interest in beverage alcohol products and are consistently choosing premium products as a part of their purchases. The West Coast lifestyle and the efforts of our supplier partners have all contributed to our success with this goal. Previous years: 04/05 – $26.70 03/04 – $26.70
Increased dollar sales of VQA wines through LDB retail stores	05/06 – 20% 06/07 – 20% 07/08 – 20%	**+18.5%** **Target partially achieved:** British Columbia's wine industry has experienced an unprecedented run of excellent vintages, and local wines are growing in popularity – not only on domestic shelves but on the world stage. This year, BC VQA wines were once again featured prominently in all BC Liquor Stores. Previous years: 04/05 – 4.9% 03/04 – 4.6%
Retail customer satisfaction	05/06 – 90% 06/07 – 90% 07/08 – 90%	**91%** **Target exceeded:** The addition of Signature Stores (larger stores that offer expanded product selection in an enhanced shopping environment) and our staff's dedication to providing customers with a high level of service have impacted not only the length of our customers' visits, but overall transaction value as well. Close to 6,000 customers were surveyed, and 91% responded with either an "excellent", "very good", or "good" rating. Previous years: 04/05 – 89% 03/04 – n/a



Customer Experience

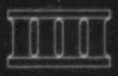
continued from page 12

Vancouver Playhouse International Wine Festival – In March 2006, for the 28th continuous year the LDB operated an on-site wine store during the Vancouver Playhouse International Wine Festival. The Vancouver festival is one of the largest and most prestigious wine festivals in North America and this year featured more wines, wineries and events than ever before. France was the most recent theme country and the LDB offered special French wines exclusive to the event. Over 60 wineries from seven different regions represented France at the festival – more wineries from one country than ever before.

Feature Programs – The LDB worked with consulates and trade organizations to support the marketing efforts and feature programs highlighting the wines of various regions, including Chile, Italy, South Africa, France, New Zealand, Australia, California and Washington. Programs included store displays, trade events and in-store tastings.

Website – During fiscal 2005/06, an average of 30,000 visitors per month accessed the LDB website, www.bcliquorstores.com. The site provides information about BC Liquor Store products, product use, store locations, corporate publications, and the liquor industry.

Publications – The LDB marketing magazine, Matters of Taste, was published four times during fiscal 2005/06 with approximately 210,000 copies distributed. The BC wine industry was prominently featured, along with product profiles, food and wine pairings, recipes and "best value" recommendations. Well-received by customers and the supplier community, Matters of Taste continues to be a strong marketing tool for BC Liquor Stores and the industry.



Business Effectiveness

Goal Four | Business Effectiveness

Improve operating efficiencies and maximize wholesale customer satisfaction in a climate of continuous change in a public-private model.

Performance Results

Gift Cards – Gift cards were introduced in BC Liquor Stores this year in denominations of $25, $50 and $100. Gift card balances can be checked on the BC Liquor Stores website.

Website upgrade – New to the BC Liquor Stores website this year is the product locator function. Customers can enter a SKU, UPC code or specific product name and receive details including quantities by region for the product. Clicking on a region will return quantities by location, and the next level will show inventory for a particular store.

Distribution/Wholesale – The distribution supply chain system continues to adjust to meet the demands of an expanded liquor retail network. The LDB is making changes to its distribution system that will improve services to wholesale customers and increase efficiencies in its stores.

Technology – The LDB continues to adapt to the changing retail environment. This year we implemented web-based technologies that will securely and reliably deliver information and services to customers, suppliers and agents, business partners, and employees.

Loss Prevention – Loss Prevention continued working closely with other provincial and federal government organizations to review and implement prevention strategies, monitor illegal activities such as cross-border smuggling and theft, and ensure that security is maintained throughout the distribution and store network.

Emergency Programs – Emergency Programs continues to review and recommend appropriate emergency responses to ensure the LDB's key business functions and processes are maintained, recovered or restored in the event of an emergency or disaster.

Regulatory Reform – In keeping with the government's regulatory reform initiative, the LDB is committed to reducing regulation and creating a more effective and results-based regulatory framework.

Business Effectiveness Targets and Results 2005/2006

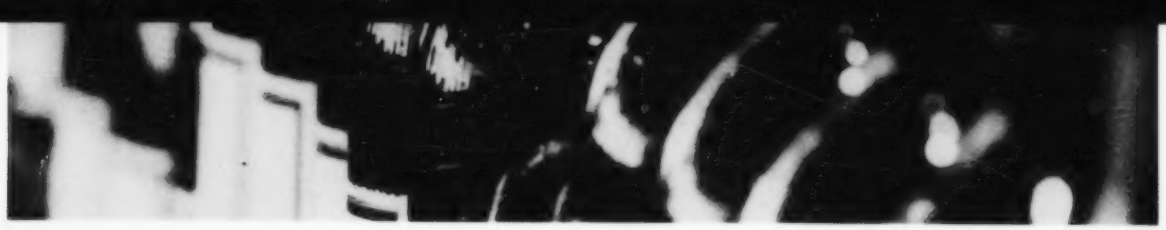
Objectives:

1. Increase wholesale customer satisfaction
2. Improve cost efficiencies

Strategies:

1. Increase the use of available and emerging technology
2. Maximize the potential efficiencies through improved distribution operations
3. Provide enhanced wholesale customer services

Performance Measures	Targets	Achievement
Wholesale customer satisfaction	05/06 – 90% 06/07 – 90% 07/08 – 90%	**90%** **Target achieved:** Approximately 2,000 wholesale customers were invited to participate in the Wholesale Customer Survey. There was a 16% response rate with 315 respondents this year. The LDB is currently developing an improved system for product ordering to meet the needs of the evolving mixed retail environment and have made inroads in the distribution of wholesale product. This year, over 200 private retail stores began receiving direct delivery. Previous years: 04/05 – 84 % 03/04 – n/a
Distribution centre accuracy rate	05/06 – 99% 06/07 – 99% 07/08 – 99%	**99%** **Target achieved:** A sampling of orders that have been assembled and not yet shipped indicated an extremely high rate of accuracy with quantity and product match. Previous years: 04/05 – 98.5 % 03/04 – 98.5 %
Distribution centre labour cost per case shipped	05/06 – $1.59 06/07 – $1.56 07/08 – $1.53	**$ 1.58** **Target achieved:** A focus on distribution centre productivity and operational costs resulted in the LDB achieving its cost-per-case goal. Previous years: 04/05 – $1.66 03/04 – $1.86
Number of LRSs receiving direct shipment	05/06 – 200 06/07 – 300 07/08 – 400	**207** **Target exceeded:** The Distribution Centres implemented direct delivery service to 207 LRSs this year. This service provides efficiencies in LDB stores and an enhanced wholesale customer experience. Previous years: 04/05 – 97 03/04 – n/a



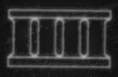
Business Effectiveness Targets and Results 2005/2006

Performance Measures	Targets	Achievement
LDB stores operating costs as a percentage of sales	05/06 – 10.9% 06/07 – 10.9% 07/08 – 10.9%	11.1% **Target partially achieved:** BC Liquor Stores have improved efficiencies and overall operating costs. This success can be attributed to strong planning on the part of store management. Previous years: 04/05 – 11.4% 03/04 – 11.9%
LDB store sales per square foot	05/06 – $1,443 06/07 – $1,370 07/08 – $1,448	$ 1,347 **Target not met:** Although we exceeded last year's square footage sales figures, this target was not met in part due to the fact that nine of the anticipated Signature Store openings for this year were delayed or postponed. Previous years: 04/05 – $1,309 03/04 – $1,197

Industry Benchmarks

2004/2005

	British Columbia	Manitoba	Ontario	Alberta
Per capita net income of beverage alcohol	$183	$157	$130	$175
GLS operating expenses as a percentage of store sales	11.4%	10.4%	10.4%	N/A
Sales per square foot	$1,309	$888	$839	N/A



Public Safety and Social Responsibility

Goal Five | Public Safety and Social Responsibility

Encourage the responsible use of beverage alcohol.

Performance Highlights

The LDB is a leader in corporate social responsibility and demonstrates its commitment to the community it serves through responsible-use of alcohol programs and a number of increasingly successful charitable activities.

Our staff incorporate social responsibility as a part of daily operations and the LDB sponsors and participates in a number of programs and activities that encourage responsible alcohol consumption and support a sustainable environment. These include:

- Just Checking: The Two-ID Policy;
- Get Home Safe (formerly Safe Ride Home) at wine and beer festivals;
- Alcohol and Pregnancy (FAS); and
- Monthly responsible-use campaigns in government liquor stores throughout the province (such as Dry Grad and Play it Safe).

Charitable Activities/Dry Grad Campaign – The annual Support Dry Grad campaign is part of the LDB's public safety and social responsibility program to promote the responsible use of beverage alcohol – a program that includes the prevention of underage drinking and promotion of zero consumption for minors.

This year, government liquor store customers and store staff raised a record total of $403,351 to support high schools that are planning alcohol-free graduation events for the class of 2006. Since the 2001 inception of the LDB's annual Support Dry Grad campaign, $1.16 million has been raised by BC Liquor Store customers and staff for alcohol-free events in communities across British Columbia.

Red Cross Disaster Partnership – This year the LDB strengthened its commitment to social responsibility by expanding its established relationship with the Canadian Red Cross and becoming a disaster partner. The LDB has collected donations from customers and staff for the Canadian Red Cross Society during three of its previous disaster relief campaigns – BC Wildfires (2003), Asia Tsunami (2004/05) and Hurricane Katrina (2005). In total, the LDB has raised nearly $150,000 towards Red Cross disaster relief since 2003.

continued on page 20

Public Safety and Social Responsibility Targets and Results 2005 /2006

Objectives:

1. No sales to minors or intoxicated persons
2. Increased awareness and promotion of the responsible use of beverage alcohol

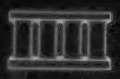
Strategies:

1. Increased staff education and enforcement of Two-ID program requirements
2. Develop co-operative programs with beverage alcohol suppliers and other stakeholders

Performance Measures	Targets	Achievement
Staff compliance with Two-ID checking policy	05/06 – 100% 06/07 – 100% 07/08 – 100%	**69%** **Target not met:** BC Liquor Store staff compliance slipped this year. Staff are 81% compliant in requesting one piece of ID, however, the requirement for two pieces of ID has been adhered to less strictly. The LDB is working with the LCLB and has a program in place to assist the LDB in achieving this goal. Previous years: 04/05 – 82 % 03/04 – n/a
Customer awareness and support of LDB's social responsibility (SR) programs	05/06 – 90% 06/07 – 90% 07/08 – 90%	**78%** **Target not met:** This year, customers were asked about specific social responsibility programs, whereas only general awareness was surveyed in previous years. Customers are less aware of specific themed SR programs, as opposed to the SR mandate. Previous years: 04/05 – 70 % 03/04 – n/a
Implementation of co-operative responsible use beverage alcohol programs	05/06 – 4 06/07 – 12 07/08 – 12	**12** **Target exceeded:** Going forward, our goal is to have one program per month in LDB stores – some that are sponsored entirely by the LDB and some that are partnership endeavours. Previous years: 04/05 – 3 03/04 – n/a

Achievement of Targets:

Exceeded: achievement exceeded established target
Achieved: target was met
Partially achieved: progress toward target was accomplished during the year
Not met: results were lower than established target
Deferred: target delayed due to unforeseen circumstances



Public Safety and Social Responsibility

continued from page 18

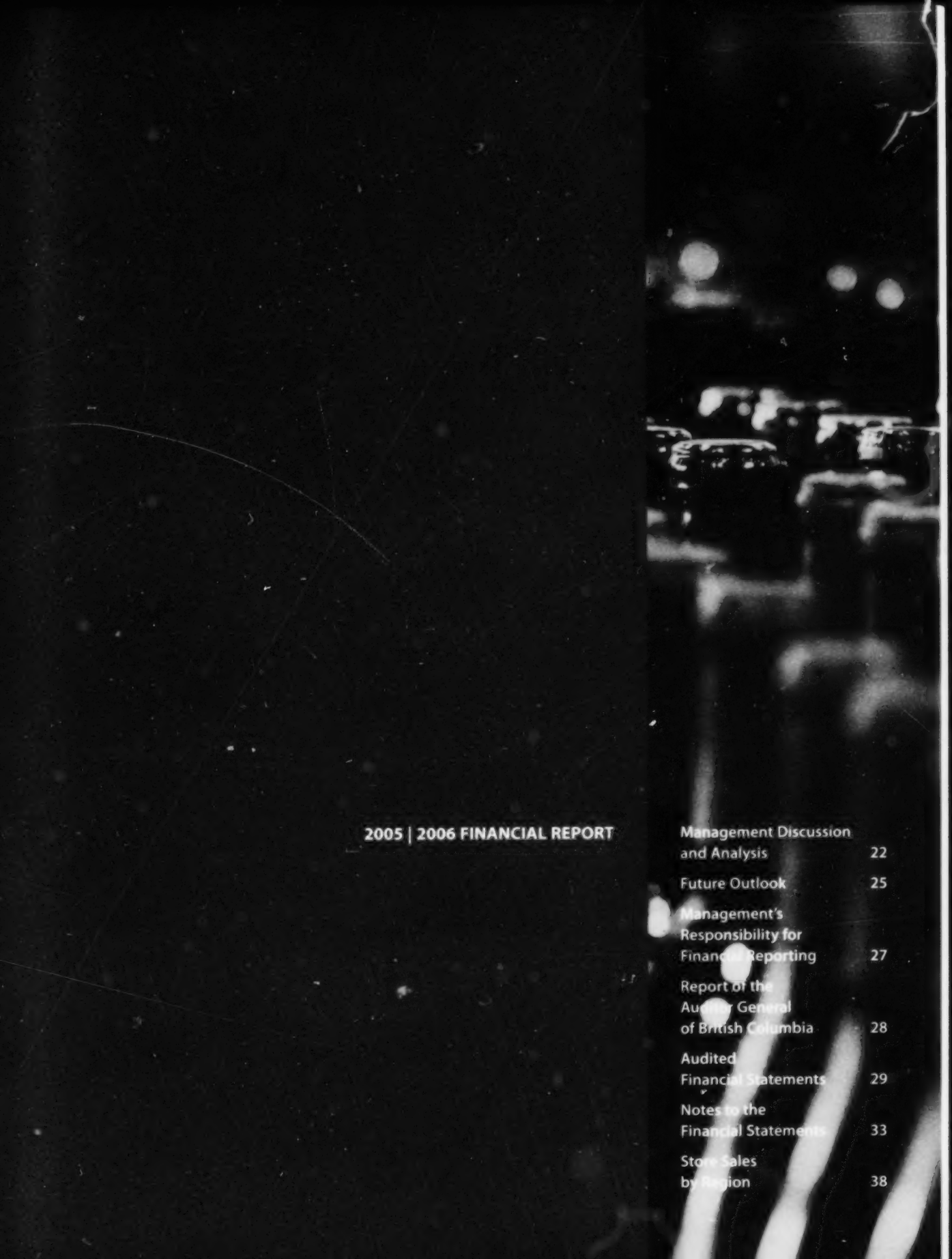
Christmas Twin Bear Program – Every November and December, BC Liquor Store customers are invited to buy twin teddy bears for $10. One bear goes home with the customer, while the other is donated to a charity chosen by liquor store staff.

Thanks to BC Liquor Store customers, in November and December 2005, the LDB donated more than 22,000 bears to children in various hospitals, shelters and special homes throughout the province. Since the LDB began this program in 1989, more than 232,000 bears have been donated to British Columbia charities.

PECSF Campaign – The Provincial Employees Community Services Fund (PECSF) is a fundraising campaign supported voluntarily by staff throughout the provincial government. Proceeds are raised through employee contributions and special fundraising events, with 100 per cent of the money raised going to a variety of British Columbia charities.

LDB employees, who were urged to "Share the Aloha" along with the Hawaiian theme of this year's campaign, reached a grand total of $189,000 in donations, exceeding all previous years and benefiting charities provincewide.

24-Hour Relay for the Kids – Every June for the last 11 years, members of the LDB Beer-O-Crats team have laced up their sneakers to raise funds for the 24-Hour Relay for the Kids, the largest fundraiser of its kind in North America. Funds are raised for the Lions Society's three Easter Seal Camps, specially equipped for children with disabilities. In 2005/06, the Beer-O-Crats raised more than $8,500.



2005 | 2006 FINANCIAL REPORT

Management Discussion and Analysis 22

Future Outlook 25

Management's Responsibility for Financial Reporting 27

Report of the Auditor General of British Columbia 28

Audited Financial Statements 29

Notes to the Financial Statements 33

Store Sales by Region 38

Management Discussion and Analysis

Fiscal 2005/06 was the LDB's 14th consecutive year of sales growth, with an average annual increase of four per cent. Net income was $800 million, an increase of $21 million over the previous year and $21 million over Service Plan target. Gross sales were $2.25 billion, an increase of $101 million over last year and $82 million over Service Plan target.

Results of Operations
Key Indices
(all $ figures in $000s)

	Actual 2005/06	Budget 2005/06	Actual 2004/05	Change vs. 2004/05 Actual	Change vs. 2005/06 Budget
Gross Sales	2,249,527	2,241,321	2,148,383	101,144	8,206
Net Income	800,471	779,100	778,594	21,877	21,371
Capital Expenditures	19,017	30,322	9,808	9,209	(11,305)
Gross Margin %	45.47%	45.54%	46.94%	-1.47%	-0.07%
Operating Income to Sales	34.70%	34.58%	35.77%	-1.07%	0.12%
Operating Expenses to Sales	10.78%	10.97%	11.17%	-0.39%	-0.19%
Net Income to Sales	35.58%	34.76%	36.24%	-0.66%	0.82%
Inventory Turnover	15.7 times	15.7 times	15.2 times	0.5 times	0.0 times
Counter Customer Count ('000s)	37,963	N/A	40,636	2,673	2,673
Average Transaction $ Value	27.22	N/A	26.70	$0.52	N/A
FTE Count	2,630	2,792	2,664	(34)	(162)

Gross dollar sales and litre volume grew in all categories except refreshment beverages. The strong provincial economy was a major contributing factor to the sales increases.

Private sector stores such as licensee retail stores (LRSs) and agency stores purchase their product from the LDB at discounts ranging from 10 to 30 per cent. During the year, the share of the liquor market accounted for by these outlets increased from 30.2 per cent to 34.1 per cent. The effect of the change in market share reduced LDB gross margin by approximately 1.4 per cent.

Capital expenditures increased to $19 million from $9.8 million in the previous year, when many programs were delayed due to government's earlier review of the liquor system. Most capital expenditures were related to enhancing the store system and upgrading information systems.

During fiscal 2005/06, the customer count at government liquor stores (GLSs) declined by 6.6 per cent or 2.7 million customers due to the increased number of private stores. The average retail customer transaction value at GLSs, however, increased to $27.22 from $26.70. This can be attributed to customers' interest in more premium products.

Operating expenses were 10.8 per cent of sales for the fiscal year, which is 0.4 per cent less than fiscal 2004/05. The reduction in operating expense is attributable to the full implementation of the employment contract provision in stores and distribution centres, and increased direct distribution to private stores from the distribution centres and private warehouses.

Management Discussion and Analysis

LDB net income as a percentage of sales decreased to 35.6 per cent from 36.2 per cent in the previous year. The increase in discounts paid to private retail stores was the major factor contributing to this reduction.

Overall inventory turns for the LDB improved by 0.5 times, from 15.2 to 15.7 times. This indicates that the average number of days that the LDB holds inventory was reduced from 24 days to 23 days. Inventory turns at the LDB's distribution centres went from 21.8 to 25.3 turns, while at GLSs it went from 15.8 to 18.3 turns. This reflects the effect of increasing direct shipments from LDB distribution centres to large wholesale customers instead of supplying these customers from GLSs.

Sales ($000s)

Product	Actual 2005/06	Budget 2005/06	Actual 2004/05	$ Change vs. 2004/05 Actual	$ Change vs. 2005/06 Budget
Spirits	606,559	610,937	574,396	32,163	(4,378)
Wine	548,030	545,302	498,198	49,832	2,728
Packaged Beer	866,742	856,423	848,051	18,691	10,319
Draught Beer	121,596	122,075	119,883	1,713	(479)
Cider/Coolers	94,865	95,177	97,691	(2,826)	(312)
Special Orders/Non-alcoholic	11,735	11,407	10,164	1,571	328
	2,249,527	2,241,321	2,148,383	101,144	8,206

Sales Litres (000s)

Product	Actual 2005/06	Budget 2005/06	Actual 2004/05	Litres Change vs. 2004/05 Actual	Litres Change vs. 2005/06 Budget
Spirits	23,368	23,352	22,417	951	16
Wine	44,827	45,585	41,829	2,998	(758)
Packaged Beer	224,486	222,088	223,061	1,425	2,398
Draught Beer	46,126	46,364	45,671	455	(238)
Cider/Coolers	19,717	19,811	20,160	(443)	(94)
Special Orders/Non-alcoholic	201	214	199	2	(13)
	358,725	357,414	353,337	5,388	1,311

Gross sales of $2.2 billion represent an increase of 4.7 per cent over last year's $2.1 billion, and an increase of 0.4 per cent over budget. All major product categories except ciders and coolers experienced growth in dollar sales and litre volume sales over last year. The largest percentage and dollar increase was in the wine category at 10 per cent or $49.8 million. Sales in the spirits category increased by $32 million or 5.6 per cent over last year. Packaged and draft beer recorded sales increases of $18.7 million and $1.8 million or 2.2 and 1.4 per cent respectively over last year, with domestic beer contributing $16 million of that amount. Cider and coolers were down 2.9 per cent due to declining sales in a softening marketplace for that product category.

Management Discussion and Analysis

Volume sales increased in all major categories except ciders and coolers. The wine category had the largest percentage volume increase at seven per cent over the previous year.

Overall, imported products had a larger percentage increase in both sales and volume. Sales growth in dollars was 9.4 per cent for imported products and 2.3 per cent for domestic products. Growth in volume was 8.2 per cent for imported products and domestic products experienced a decline of 0.1 per cent. Domestic beer had a 0.8 per cent decrease.

Key Financial and Operating Statistics
For the five years ended March 31, 2006
(all dollar figures in $000s)

	Actual 2005/06	Budget 2005/06	Actual 2004/05	Actual 2003/04	Actual 2002/03
Sales	2,249,527	2,241,321	2,148,383	1,998,223	1,885,295
Cost of Sales	1,101,656	1,099,152	1,048,602	992,225	925,548
Gross Margin	1,022,929	1,020,771	1,008,494	936,535	904,330
Gross Margin (%)	45.47%	45.54%	46.9%	46.9%	48.0%
Operating Expenses	242,428	245,787	240,045	215,276	254,908
Operating Expenses to Sales (%)	10.78%	10.97%	11.2%	10.8%	13.5%
Operating Income	780,501	774,984	768,449	721,259	649,422
Operating Income to Sales (%)	34.70%	34.58%	35.8%	36.1%	34.5%
Net Income	800,471	779,100	778,594	726,710	654,217
Net Income to Sales (%)	35.58%	34.76%	36.2%	36.4%	34.7%
Inventory Turnover	15.7	15.7	15.2	14.8	14.5

Data source: LDB PeopleSoft Financial System

Provincial Sales by Source
For the five years ended March 31, 2006
(as a percentage of total dollar sales)

	2005/06	2004/05	2003/04	2002/03	2001/02
Counter Sales					
Government Liquor Stores (%)	46.7	50.5	54.0	56.4	58.5
Licensee Retail Stores (%)	28.5	24.7	20.8	18.2	15.7
Agency Stores (%)	5.6	5.5	5.5	4.5	4.1
Total Counter Sales (%)	**80.8**	**80.7**	**80.3**	**79.1**	**78.3**
Licensed Establishments	19.2	19.3	19.7	20.9	21.7
Total Sales (%)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Management Discussion and Analysis

Counter Sales By Source
For the five years ended March 31, 2006
(as a percentage of total dollar sales)

	2005/06	2004/05	2003/04	2002/03	2001/02
Counter Sales					
Government Liquor Stores (%)	57.8	62.5	67.2	71.3	74.8
Licensee Retail Stores (%)	35.3	30.6	25.9	23.0	20.0
Agency Stores (%)	6.9	6.9	6.9	5.7	5.2
Total Counter Sales Market (%)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Data source: LDB PeopleSoft Financial System

Remittances to Government Agencies
For the five years ended March 31, 2006
($000s)

	2005/06	2004/05	2003/04	2002/03	2001/02
FEDERAL GOVERNMENT					
Custom Duties and Excise Tax	127,912	126,905	125,811	108,877	103,718
Goods and Services Tax	150,690	145,201	135,958	129,088	124,131
Total	278,602	272,106	261,769	237,965	227,849
PROVINCIAL GOVERNMENT					
LDB Net Income	800,471	778,954	726,710	654,217	636,673
Social Services Tax	105,362	108,199	108,089	105,100	105,044
Total	905,833	887,153	834,799	759,317	741,717
MUNICIPAL GOVERNMENT					
Property Taxes	5,181	4,985	4,702	4,827	4,716
Total Remittances	**1,189,616**	**1,164,244**	**1,101,270**	**1,002,109**	**974,282**

Future Outlook

Management Future Outlook

Sales in spirits, wine and packaged beer are budgeted to increase during fiscal 2006/07. Wine, spirits and imported beer are expected to maintain their strong performance.

The licensee retail store (LRS) system is expected to continue its expansion and growth in market share. The full impact of the realignment of work schedules in government liquor stores (GLSs) will be stabilized. The effect of increased rent and amortization for capital expenditures will be realized during the year. Operating expenses as a percentage of sales are budgeted at 11.2 per cent.

Financial Outlook

Projected Income, Expenses, Capital Requirements and FTEs
(all dollar figures in $000s)

	Budget 2006/07	Budget 2007/08	Budget 2008/09
Total Sales	2,300,596	2,368,399	2,418,603
Commissions and Discounts	131,607	135,472	138,344
Cost of Sales	1,119,162	1,153,348	1,179,857
Operating Expenses	257,293	265,385	270,055
Other Income	5,600	5,600	5,600
Net Income	798,134	819,794	835,947
Capital Requirements	27,000	12,000	12,000
FTEs	2,703	2,768	2,814

Risk Management

The LDB Executive Management Committee meets monthly to discuss service plan performance, risks and mitigating strategies.

2006/07 Risk Factors and Sensitivities	Mitigating Strategies
Liquor is a discretionary consumer product and an unexpected downturn in the economy would negatively affect LDB sales projections.	The LDB will carefully monitor sales and will make necessary adjustments to sales strategies and operating expenses in order to achieve net income targets.
Liquor sales are negatively impacted by poor weather, particularly in the summer and during the winter holiday season.	The LDB will carefully monitor sales and will make necessary adjustments to sales strategies and operating expenses in order to achieve net income targets.
Liquor is a high-value product and is susceptible to illicit activity such as cross-border smuggling and theft.	The LDB will work with appropriate municipal, provincial and federal enforcement agencies to identify and address illicit activity.
Shifts in sales from LDB stores to private stores increase the cost of discounts applied to private store purchases.	The LDB will carefully monitor discount costs and will make necessary adjustments to sales strategies and operating expenses.
Unforeseen events such as natural disasters may disrupt business at any time.	The LDB will continuously improve upon and test the LDB's Business Continuity Plan.
A number of knowledgeable, experienced employees are reaching retirement age.	The LDB will develop succession plans for key positions and continue to provide necessary on-the-job training.

Management's Responsibility for Financial Reporting

The financial statements of the British Columbia Liquor Distribution Branch have been prepared by management in accordance with Canadian generally accepted accounting principles. Any financial information contained elsewhere in the annual report has been reviewed to ensure consistency with the financial statements.

Management is responsible for the integrity of the financial statements and has established systems of internal control to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and financial records are properly maintained to facilitate the preparation of financial statements in a timely manner.

The Office of the Auditor General of British Columbia has performed an independent audit of the financial statements of the Liquor Distribution Branch. The Auditor's Report outlines the scope of this independent audit and expresses an opinion on the financial statements of the Liquor Distribution Branch.

Jay Chambers
General Manager

Roger M. Bissoondatt, CA, CMA
Executive Director, Finance

Vancouver, British Columbia
May 24, 2006

Report of the Office of the Auditor General of British Columbia

To the Minister of Public Safety and Solicitor General,
Province of British Columbia

We have audited the balance sheet of the *British Columbia Liquor Distribution Branch* as at March 31, 2006 and the statements of operations, advance due from Province of British Columbia and cash flows for the year then ended. These financial statements are the responsibility of the Branch's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the *British Columbia Liquor Distribution Branch* as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Victoria, British Columbia
May 24, 2006

Errol S. Price, CA
Deputy Auditor General

Audited Financial Statements

BALANCE SHEET
(in $000s)

March 31,	2006	2005
ASSETS		
CURRENT ASSETS		
Accounts receivable (note 10)	**16,936**	9,466
Inventories	**71,268**	68,630
Prepaid expenses	**7,352**	3,325
Due from Province of British Columbia	**41,807**	54,356
	137,363	135,777
CAPITAL ASSETS (note 3)	**28,327**	17,549
	165,690	153,326
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness	**11,762**	8,561
Accounts payable and accrued liabilities	**149,427**	137,718
Restructuring costs (note 5)	**31**	1,183
Current portion of tenant improvement loans (note 6)	**844**	972
Current portion of capital lease (note 7)	**393**	355
	162,457	148,789
LONG TERM LIABILITIES		
Tenant improvement loans (note 6)	**2,643**	3,554
Obligation under capital lease (note 7)	**590**	983
	165,690	153,326

Approved by:

General Manager *Executive Director Finance*

The accompanying notes and supplementary schedule are an integral part of these financial statements.

Audited Financial Statements

STATEMENT OF OPERATIONS
(in $000's)

Year Ended March 31,	2006	2005
Sales (note 4)	2,249,527	2,148,383
Less commissions & discounts	124,942	91,287
	2,124,585	2,057,096
Cost of merchandise sold	1,101,656	1,048,602
Gross margin	1,022,929	1,008,494
Operating expenses (schedule)	242,428	240,045
	780,501	768,449
Other income	19,970	10,145
Net income	800,471	778,594

STATEMENT OF ADVANCE DUE FROM PROVINCE OF BRITISH COLUMBIA
(in $000's)

Year Ended March 31,	2006	2005
Balance beginning of year	54,356	44,062
Net income	(800,471)	(778,594)
Payments to Province of British Columbia	787,922	788,888
Balance end of year	41,807	54,356

The accompanying notes and supplementary schedule are an integral part of these financial statements.

Audited Financial Statements

STATEMENT OF CASH FLOWS
(in $000's)

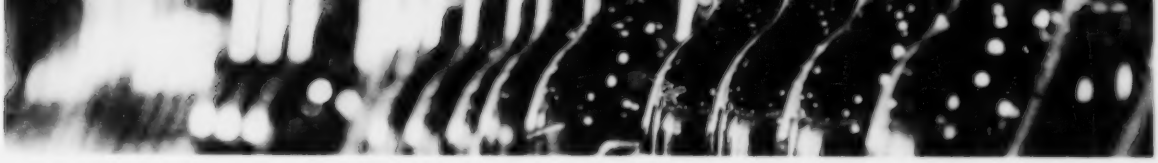
Year Ended March 31,	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	2,117,115	2,052,652
Cash payments to Provincial Treasury	(787,922)	(788,888)
Cash paid to suppliers and employees	(1,331,477)	(1,260,610)
Cash receipts from other income	18,908	9,994
Interest paid on capital lease and loans	(482)	(610)
CASH FLOWS FROM OPERATING ACTIVITIES	16,142	12,538
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of capital assets excluding capital projects	(11,720)	(6,976)
Acquisition of capital project assets	(7,296)	(2,832)
Proceeds from disposal of capital assets	1,062	151
Disposal of Land	5	0
CASH FLOWS (USED IN) INVESTING ACTIVITIES	(17,949)	(9,657)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on capital lease	(355)	(321)
Tenant improvement loans	(1,039)	(1,078)
CASH FLOWS (USED IN) FINANCING ACTIVITIES	(1,394)	(1,399)
NET (DECREASE) INCREASE IN CASH	(3,201)	1,482
(BANK INDEBTEDNESS) BEGINNING OF YEAR	(8,561)	(10,043)
(BANK INDEBTEDNESS) END OF YEAR	(11,762)	(8,561)

The accompanying notes and supplementary schedule are an integral part of these financial statements.

Audited Financial Statements

SCHEDULE OF OPERATING EXPENSES
(in $000's)

Year Ended March 31,	2006	2005
Salaries, wages and benefits (notes 5 and 10)	145,229	141,772
Rents	26,512	26,124
Professional services	4,836	4,138
Repairs and maintenance	5,679	4,865
Freight to stores	5,863	5,393
Amortization	8,233	16,037
Light, water and fuel	3,945	4,098
Beverage container costs	11,663	9,786
Other operating expenses	2,326	1,972
Stationery and supplies	3,328	2,989
Merchandising	2,642	2,341
Bank charges	11,254	10,076
Data processing	3,512	3,137
Telephone	3,390	3,980
Travel	988	649
Loss prevention	1,466	1,151
Warehouse equipment costs	1,080	927
Interest on long term liabilities	482	610
	242,428	240,045



BRITISH COLUMBIA LIQUOR DISTRIBUTION BRANCH
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2006
(Tabular amounts in $000s)

1. PURPOSE OF THE BRANCH

The British Columbia Liquor Distribution Branch (Branch) obtains its authority for operation from the *British Columbia Liquor Distribution Act (Act)*. As stated in Section 2 of this Act, the Branch has the exclusive right to purchase liquor for resale and reuse in the Province in accordance with the provisions of the *Importation of Intoxicating Liquors Act (Canada)*.

2. SIGNIFICANT ACCOUNTING POLICIES

As prescribed by Section 30(3)(b) of the Act, the financial statements of the Branch are prepared in accordance with Canadian generally accepted accounting principles.

Significant accounting policies are as follows:

Inventories

Inventories are valued at cost on a first in first out basis, with cost comprising of supplier invoiced value, freight, duties and taxes.

Capital Assets

Capital assets are stated at cost and are amortized on a straight-line basis as follows:

Buildings

7.5 per cent per annum.

Leasehold improvements

A minimum of 10 per cent per annum or a rate sufficient to amortize the cost over the remaining life of the respective lease.

Furniture, fixtures, vehicles and equipment

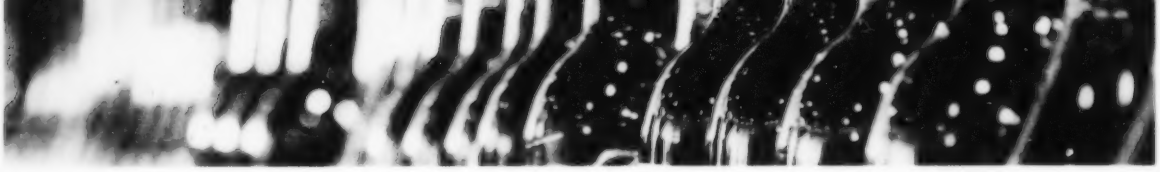
25 per cent per annum.

Retail Management System

All costs of development, construction and other costs associated with the development of the Retail Management System have been capitalized and are amortized at 25 per cent per annum.

Capital projects

All costs of development for capital projects are capitalized. At the point in time when the project is substantially completed, it is amortized at 25 per cent per annum.



BRITISH COLUMBIA LIQUOR DISTRIBUTION BRANCH
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2006
(Tabular amounts in $000s)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Leases

Assets recorded under capital leases are amortized on a straight-line basis over the term of the lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

Related Party Transactions

The Branch is related through common ownership to all Province of British Columbia ministries, agencies and Crown corporations. Transactions with these entities, as well as other transactions in which Provincial Government intervention is a component, are generally considered to be in the normal course of operations and are recorded at the exchange amount, unless disclosed separately in these financial statements.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

3. CAPITAL ASSETS

	2006			2005
	Cost	Accumulated Amortization	**Net Book Value**	Net Book Value
Land	1,068	-	**1,068**	1,073
Buildings	18,167	16,603	**1,564**	1,799
Tenant improvements	27,821	16,280	**11,541**	5,903
Furniture, fixtures, vehicles & equipment	31,186	26,110	**5,076**	3,603
Office furnishings under capital lease	3,627	3,144	**483**	725
Retail Management System	44,050	44,050	-	1,444
Capital projects	6,438	3,601	**2,837**	3,022
Capital projects under development	5,758		**5,758**	
	138,115	109,788	**28,327**	17,549

4. SALES

Total sales reported include sales to retail customers, licensed establishments, licensee retail stores and agency stores. These amounts do not include subsequent resale by licensed establishments, licensee retail stores and agency stores.

	2006	2005
Retail customers	1,050,384	1,084,012
Licensee retail stores	641,548	531,361
Licensed establishments	431,364	414,140
Agency stores	126,231	118,870
	2,249,527	2,148,383

5. RESTRUCTURING COSTS

Provisions for severance costs in 2003 for store and distribution centre closures were reversed in 2004 as a result of government's decision to continue to operate the retail and distribution system. A balance of $31,000 remains for Early Retirement Incentive and Voluntary Departure Program costs for departures in 2006 as a result of organization changes resulting from the collective agreement ratification in November 2003.

	2006	2005
Opening balance beginning year	1,183	7,668
Used during the year	(525)	(4,147)
Reversal of accrual not required	(627)	(2,338)
	31	1,183

6. TENANT IMPROVEMENT LOANS

As at March 31, 2006, the Branch has tenant improvements loans of $4.5 million financed through landlords. The range of interest rates is 4.25% to 11.75% with loans expiring from July 2006 to June 2014. The Principal payments due are as follows:

Year ending March 31	
2007	844
2008	830
2009	690
2010	498
2011	385
Subsequent years	240
	3,487
current portion	(844)
	2,643

BRITISH COLUMBIA LIQUOR DISTRIBUTION BRANCH
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2006
(Tabular amounts in $000s)

7. OBLIGATION UNDER CAPITAL LEASE

In the fiscal year 1994, the Branch entered into a 15-year capital lease expiring in the fiscal year 2009 for certain of its head office tenant improvements and office furnishings. The following is a schedule of future minimum lease payments under the capital lease expiring July 31, 2008, together with the balance of the obligation under capital lease:

Year ending March 31	2007	475
	2008	475
	2009	158
		1,108
	Less: imputed interest at 10%	(125)
	current portion	(393)
		590

8. COMMITMENTS

Future commitments for operating leases for Branch premises and equipment are as follows:

Year ending March 31	2007	21,320
	2008	18,558
	2009	13,274
	2010	9,741
	2011	7,184
	Subsequent years	18,385
		88,462

9. CONTINGENT ITEMS

The Branch has authorized suppliers' agents to import and warehouse liquor for subsequent purchase by the Branch. Under this program, the Branch has a contractual obligation to purchase all inventories held by the agent should the agent opt out of the program. As at March 31, 2006, the value of agents' inventories totalled approximately $67.4 million (2005 - $55.3 million) and the future liability for related federal excise taxes is $11.7 million (2005 - $11.4 million).

The Branch is the defendant in legal actions and it is not expected that the ultimate outcome of these claims will have a material effect on the financial position of the corporation.

10. EMPLOYEE COMPENSATION

Salaries and wages expense includes $12.4 million for lump sum payments payable to employees as at March 31, 2006 negotiated in the Public Sector collective agreement. A receivable from the Province of British Columbia is included in these statements with a corresponding offset recorded as other income.

11. EMPLOYEES' BENEFIT PLANS

The Branch and its employees contribute to the Public Service Pension Plan (The Plan). The Plan is a multi-employer defined benefits pension plan. Under joint trusteeship, unfunded liability or surplus is shared between the employers and the plan members and will be reflected in their future contributions. The board of trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of benefits.

Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The latest valuation as at March 31, 2005 indicated an unfunded liability of $767 million for basic pension benefits. The next valuation will be as at March 31, 2008 with results available in early 2009. The actuary does not attribute portions of the unfunded liability to individual employers. The Branch paid $7.5 million for employer contributions to the plan in fiscal 2005/06.

Employees are also entitled to specific retirement benefits as provided for under collective agreements and terms of employment. The future liability for this obligation amounts to $7,316,660 (2005 – $7,411,249) which represents future employees' retirement benefits outside of the Public Service Pension Plan. The expense adjustment recorded in the year is $270,790 (2005 - $6,954,027).

12. FINANCIAL INSTRUMENTS

The Liquor Distribution Branch's financial instruments consist of cash, accounts receivable, advance due to/from the Province of British Columbia, accounts payable and accrued liabilities, tenant improvement loan, and capital lease. Unless otherwise noted, it is management's opinion that the Branch is not exposed to significant interest, currency or credit risks arising from these financial instruments.

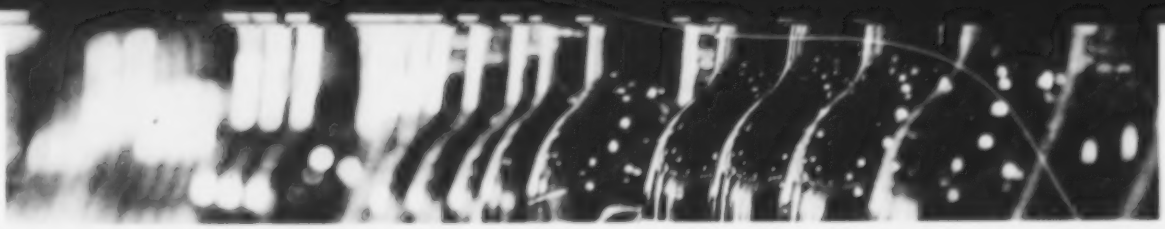
2005/06 Store Sales by Region – Unaudited

2005/06 Store Sales by Region		Sales		Litre Product Mix				Litre Product Mix Percentage			
Store Name	Number	Retail $	Litres	Spirits	Wine	Beer	Cider /Coolers	Spirits	Wine	Beer	Cider /Coolers
Vancouver Island/Coast											
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

2005/06 Store Sales by Region – Unaudited

2005/06 Store Sales by Region		Sales		Litre Product Mix				Litre Product Mix Percentage			
Store Name	Number	Retail $	Litres	Spirits	Wine	Beer	Cider /Coolers	Spirits	Wine	Beer	Cider /Coolers

Mainland/Southwest



2005/06 Store Sales by Region – Unaudited

2005/06 Store Sales by Region		Sales		Litre Product Mix				Litre Product Mix Percentage			
Store Name	Number	Retail $	Litres	Spirits	Wine	Beer	Cider /Coolers	Spirits	Wine	Beer	Cider /Coolers
[redacted]											
[redacted]											
[redacted]										

2005/06 Store Sales by Region – Unaudited

2005/06 Store Sales by Region		Sales		Litre Product Mix				Litre Product Mix Percentage			
Store Name	Number	Retail $	Litres	Spirits	Wine	Beer	Cider /Coolers	Spirits	Wine	Beer	Cider /Coolers
Dunbar	102	10,330,980	997,776	71,226	574,320	512,054	40,176	7.1%	57.5%	51.4%	4.0%
Commercial Drive	111	10,328,872	1,305,630	103,210	290,599	830,242	81,586	7.9%	22.3%	63.6%	6.2%
Cedarbridge	122	13,674,780	1,638,635	157,082	411,211	975,956	94,386	9.6%	25.1%	59.5%	5.8%
Collingwood	133	11,884,461	1,716,972	149,461	244,015	1,235,690	87,806	8.7%	14.2%	72.0%	5.1%
Broadway Maple	141	16,645,122	1,941,267	158,213	524,819	1,171,073	87,142	8.1%	27.0%	60.4%	4.5%
Kingsgate Mall	153	9,397,162	1,487,604	103,318	182,431	1,119,278	82,577	6.9%	12.3%	75.2%	5.6%
Thurlow	179	26,657,201	2,440,067	287,525	641,669	1,383,908	126,965	11.8%	26.3%	56.7%	5.2%
Ambulue	196	5,956,385	502,750	57,725	228,624	194,203	22,198	11.5%	45.5%	38.6%	4.4%
Granville & 70th	141	1,199,081	141,259	10,617	38,603	84,142	7,897	7.5%	27.3%	59.6%	5.6%
49th and Cambie	160	30,251,855	2,522,746	263,883	810,308	1,351,313	97,242	10.5%	32.1%	53.6%	3.9%
8th & Cambie	171	8,360,311	927,869	78,285	266,408	537,932	45,244	8.4%	28.7%	58.0%	4.9%
Glenlyon	191	4,838,070	429,594	44,643	131,207	236,821	16,923	10.4%	30.5%	55.2%	3.9%
UBC Marketplace	192	2,361,684	311,758	26,091	51,002	219,586	15,079	8.4%	16.4%	70.4%	4.8%
Champlain Mall	194	4,717,833	624,550	60,178	135,013	395,591	33,768	9.6%	21.6%	63.4%	5.4%
Kerrisdale	210	3,050,663	313,113	28,301	108,311	161,028	15,473	9.0%	34.6%	51.5%	4.9%
29th and Main	237	5,790,152	816,507	64,242	134,995	580,893	36,377	7.9%	16.5%	71.1%	4.5%
Broadway & Oak	301	8,281,642	1,246,509	73,647	196,292	928,472	48,098	5.9%	15.7%	74.5%	3.9%
West Vancouver Stores											
Ambleside	202	3,984,740	551,510	63,191	249,568	218,067	20,684	11.5%	45.3%	39.4%	3.8%
Caulfeild	175	7,664,311	646,902	66,128	285,232	258,637	36,905	10.2%	44.1%	40.0%	5.7%
Park Royal	228	23,932,573	1,674,276	177,851	777,942	655,464	63,019	10.6%	46.5%	39.1%	3.8%
Whalley Stores											
Whalley Market Place	119	10,419,538	1,051,439	81,915	278,854	643,161	47,509	7.8%	26.5%	61.2%	4.5%
Whalley Crossroads	190	1,942,483	238,664	15,108	49,966	163,556	10,034	6.3%	20.9%	68.6%	4.2%
Whalley	102	6,703,109	779,205	78,849	127,464	530,772	42,120	10.1%	16.4%	68.1%	5.4%
White Rock	108	10,428,219	1,132,669	137,435	366,844	556,919	71,471	12.1%	32.4%	49.2%	6.3%
Thompson/Okanagan											
Armstrong	211	2,290,278	308,222	39,779	43,237	190,358	34,848	12.9%	14.0%	61.8%	11.3%
Ashcroft	202	975,064	160,506	13,519	15,486	120,893	10,608	8.4%	9.6%	75.4%	6.6%
Barriere	138	1,369,776	236,243	18,056	16,054	181,229	20,904	7.6%	6.8%	76.8%	8.8%
Clearwater	203	1,182,851	183,717	17,511	14,904	130,375	20,927	9.5%	8.1%	71.0%	11.4%
Chase	139	3,720,271	465,588	64,857	71,072	245,744	83,915	13.9%	15.3%	52.8%	18.0%
Clearwater	188	2,281,773	336,205	33,207	38,649	228,117	36,232	9.9%	11.5%	67.8%	10.8%
Clinton	201	1,158,932	191,735	15,569	13,505	148,259	14,402	8.1%	7.0%	77.4%	7.5%
Kimberley	184	2,001,150	273,751	35,699	31,159	169,154	37,739	13.0%	11.4%	61.8%	13.8%
Logan	191	4,406,357	562,922	57,313	80,610	388,806	36,193	10.2%	14.3%	69.1%	6.4%
Kamloops Stores											
Thompson Park	221	2,157,367	292,546	34,197	47,825	187,771	22,753	11.7%	16.3%	64.2%	7.8%
Columbia Place	215	14,453,597	1,582,550	224,961	351,292	838,989	167,308	14.2%	22.2%	53.0%	10.6%
Valleyview	128	2,429,548	302,581	41,831	41,903	156,046	62,801	13.8%	13.8%	51.6%	20.8%
Barriere	187	1,532,398	246,802	21,392	24,662	184,599	15,949	8.7%	10.0%	74.8%	6.5%
Kamloops North	220	12,661,346	1,665,787	228,431	205,596	1,024,336	207,424	13.7%	12.3%	61.5%	12.5%

2005/06 Store Sales by Region – Unaudited

2005/06 Store Sales by Region		Sales		Litre Product Mix				Litre Product Mix Percentage			
Store Name	Number	Retail $	Litres	Spirits	Wine	Beer	Cider /Coolers	Spirits	Wine	Beer	Cider /Coolers
Kelowna Stores											
Cooper's Hawk	005	4,259,809	646,027	78,415	123,272	401,650	40,685	11.5%	19.1%	63.3%	6.3%
Westbank	061	6,523,197	1,353,110	171,835	280,733	811,559	143,503	12.6%	11.0%	59.6%	10.6%
Mission Flats	136	1,836,295	981,019	104,496	226,895	583,985	64,589	10.6%	23.3%	59.5%	6.6%
Orchard Park	171	10,865,720	2,995,011	568,591	711,847	1,381,470	168,503	17.8%	23.8%	46.2%	12.3%
Kelowna	014	1,444,490	291,869	62,758	80,758	140,065	28,046	12.8%	12.2%	63.5%	11.5%
Lakeshore	133	989,223	128,783	14,506	15,033	88,573	10,647	11.3%	11.7%	68.7%	8.3%
Lumby	013	1,041,539	245,960	15,327	21,006	185,140	24,636	11.4%	9.6%	65.8%	13.6%
Lytton	059	430,930	114,612	8,134	10,445	88,634	9,399	5.4%	9.1%	77.3%	8.2%
Merritt	029	4,511,909	681,830	71,022	71,789	496,669	80,355	10.4%	10.8%	67.3%	11.8%
Oliver	053	1,644,466	518,614	59,824	64,826	344,905	49,059	11.5%	12.5%	66.5%	9.5%
Osoyoos	060	4,709,774	607,646	74,986	104,175	351,375	77,210	12.3%	17.1%	57.8%	12.7%
Penticton	030	15,009,702	1,994,194	244,269	373,093	1,173,716	163,280	12.5%	19.1%	60.0%	8.4%
Princeton	037	2,221,545	415,710	33,066	36,167	311,133	30,744	8.0%	9.3%	75.3%	7.4%
Revelstoke	045	1,644,790	510,197	58,294	81,329	321,295	47,289	11.4%	15.9%	63.4%	9.3%
Salmon Arm	046	3,993,115	1,001,326	159,248	196,237	508,667	148,974	15.9%	19.6%	50.8%	14.9%
Sicamous	050	2,000,929	263,413	30,400	32,108	161,329	39,576	11.8%	12.2%	61.3%	15.0%
Summerland	056	3,651,354	513,150	51,926	83,424	342,241	35,559	10.0%	16.3%	66.7%	7.0%
Vernon Stores											
Vernon	063	5,984,402	598,851	120,806	132,075	261,115	82,757	20.3%	22.1%	43.7%	13.9%
Vernon Square	135	2,927,635	1,080,478	174,850	237,824	518,960	148,844	16.2%	22.0%	48.0%	13.8%
Winfield	066	3,845,551	449,084	52,225	82,415	293,688	42,656	12.0%	18.9%	59.3%	9.8%
Kootenay											
Castlegar	009	4,303,895	558,121	79,449	97,897	315,141	65,674	14.2%	17.5%	56.5%	11.8%
Fernie	035	10,534,883	1,444,364	170,147	193,027	964,076	115,014	11.9%	13.4%	66.7%	8.0%
Creston Valley	015	4,396,612	603,484	72,994	79,479	348,961	53,048	12.1%	13.0%	66.1%	8.8%
Elkford	135	769,631	98,929	15,536	8,737	68,099	7,554	15.6%	8.7%	68.1%	7.6%
Invermere	033	4,464,746	577,654	60,591	81,286	396,579	39,198	10.5%	14.1%	68.6%	6.8%
Fruitvale	095	1,206,853	213,711	13,848	20,791	166,004	13,070	6.5%	9.7%	77.7%	6.1%
Grand Forks	011	4,280,493	623,640	62,606	89,155	430,160	41,717	10.0%	14.3%	69.2%	6.7%
Greenwood	034	472,324	77,609	6,270	7,886	56,952	6,501	8.1%	10.2%	73.4%	8.4%
Hawthorne	017	6,040,835	711,770	84,895	138,435	400,360	43,180	12.6%	19.4%	56.3%	11.7%
Kaslo	018	1,547,772	255,219	15,420	32,074	196,572	21,153	6.0%	12.6%	77.1%	8.3%
Kimberley	066	3,331,364	465,816	50,763	64,022	316,387	34,644	10.9%	13.7%	67.9%	7.5%
Nakusp	057	2,355,964	384,092	27,720	37,602	285,930	32,820	7.2%	9.8%	74.5%	8.5%
Nelson	052	9,855,576	1,228,608	130,567	248,795	727,790	121,447	10.6%	20.3%	59.2%	9.9%
New Denver	014	628,787	103,425	5,737	13,364	76,278	8,046	5.5%	12.9%	73.8%	7.8%
Radium	245	1,569,338	204,702	24,571	29,346	129,983	20,802	12.0%	14.3%	63.5%	10.2%
Rossland	044	1,997,190	274,075	21,699	52,012	184,199	16,165	7.9%	19.0%	67.2%	5.9%
Salmo	207	926,519	140,318	14,785	13,641	95,295	16,607	10.5%	9.7%	67.9%	11.9%
Sparwood	026	1,475,528	232,712	23,424	14,232	182,109	12,818	10.1%	6.1%	78.3%	5.5%
Trail	051	4,508,440	638,969	65,520	116,598	395,834	60,717	10.3%	18.3%	61.9%	9.5%

2005/06 Store Sales by Region – Unaudited

2005/06 Store Sales by Region		Sales		Litre Product Mix				Litre Product Mix Percentage			
Store Name	Number	Retail $	Litres	Spirits	Wine	Beer	Cider /Coolers	Spirits	Wine	Beer	Cider /Coolers
Cariboo											
100 Mile House	211	6,602,809	907,615	114,991	141,205	553,630	95,790	12.7%	15.8%	61.0%	10.5%
Mackenzie	108	2,476,026	344,052	42,993	25,012	258,431	27,679	12.1%	7.3%	75.1%	5.4%
McBride	120	1,022,539	142,889	16,998	12,032	100,215	13,646	11.9%	8.4%	71.5%	8.2%
Prince George Stores											
2nd Highway	114	4,032,036	561,949	70,769	57,578	387,138	46,264	12.5%	9.2%	68.9%	8.4%
15th Avenue	128	9,985,872	1,495,682	147,900	156,649	1,089,572	101,561	9.9%	10.5%	72.8%	6.8%
College Heights	134	4,415,070	640,859	66,468	81,467	445,009	47,914	10.4%	12.7%	69.4%	7.5%
Parkwood Place	174	14,136,213	1,939,560	294,456	274,249	906,364	249,650	15.2%	14.1%	46.7%	12.9%
Quesnel	282	3,930,243	858,746	146,507	132,034	499,179	111,026	17.1%	15.4%	58.1%	12.9%
Valemount	306	1,146,080	168,985	13,040	12,099	124,850	8,953	7.7%	7.2%	73.9%	5.3%
Williams Lake	265	9,682,214	1,360,751	190,303	188,447	622,753	161,728	14.0%	13.8%	45.8%	11.9%
North Coast											
Hazelton	217	1,280,577	237,504	13,829	11,849	186,671	25,155	5.8%	5.0%	78.6%	10.6%
Kitimat	251	3,029,006	443,044	42,211	39,077	297,692	32,704	9.5%	8.8%	67.2%	7.4%
Masset	305	1,605,410	221,479	23,239	29,984	152,636	21,580	10.5%	13.5%	68.9%	9.7%
Prince Rupert	321	5,928,100	750,935	100,264	107,444	470,715	72,444	13.4%	14.3%	62.6%	9.7%
Queen Charlotte City	211	4,353,703	714,898	71,990	76,869	542,451	23,303	9.9%	10.4%	75.5%	3.4%
Stewart	344	422,621	58,348	6,596	8,582	38,936	4,134	11.0%	14.7%	66.4%	7.1%
Terrace	351	7,933,900	896,008	146,126	175,469	439,643	134,846	16.8%	19.1%	49.1%	15.1%
Nechako											
Burns Lake	109	2,576,295	429,518	41,244	35,594	231,663	31,067	12.5%	10.8%	67.3%	9.4%
Fort St. James	168	1,567,366	215,901	24,125	22,391	169,019	20,364	10.2%	9.5%	71.5%	8.6%
Fraser Lake	169	1,159,211	177,561	16,907	16,592	128,186	15,878	9.5%	9.3%	72.3%	8.9%
Houston	196	1,965,691	294,067	31,236	32,190	211,340	19,301	10.6%	11%	71.9%	10.0%
Smithers	336	5,442,486	708,922	83,525	111,589	441,961	71,847	11.8%	15.7%	62.4%	10.1%
Vanderhoof	381	2,581,552	360,202	42,791	41,057	230,195	47,159	11.9%	11.4%	64.4%	10.8%
Peace River											
Chetwynd	208	2,333,280	320,442	42,258	22,800	219,750	36,134	13.2%	7.0%	68.5%	11.3%
Dawson Creek	213	6,997,878	961,007	123,959	86,766	641,020	99,862	12.8%	10.1%	66.7%	10.4%
Fort Nelson	222	3,706,295	598,880	85,436	47,038	353,733	42,673	21.4%	8.8%	59.6%	10.1%
Fort St. John	243	10,852,666	1,549,690	226,344	150,066	749,198	143,500	18.2%	10.4%	59.9%	11.5%
Hudson Hope	234	555,422	82,781	8,156	8,358	59,656	6,611	9.9%	10.1%	72.0%	8.0%
Tumbler Ridge	307	1,138,759	151,604	21,083	10,168	107,310	13,037	13.9%	6.7%	70.8%	8.6%
GRAND TOTAL		**1,586,724,168**	**178,950,784**	**23,367,080**	**39,056,760**	**100,116,016**	**16,410,928**	**13.1%**	**21.8%**	**55.9%**	**9.2%**

Appendix A

Data Accuracy:

The following information summarizes the source and accuracy of the data used for Annual Report performance measures.

Sales Data (goals 1, 3, 4): Sales data for government liquor stores (GLSs) is collected from computerized point of sale cash register systems and stored in head office databases. Sales made directly to customers by agents on behalf of the Liquor Distribution Branch (LDB) are transmitted to the LDB and stored in databases. LDB financial statements are audited by the Auditor General's office annually.

Expense Data: (goals 1, 4): LDB expense data is captured, stored and reported by the LDB's financial system. The LDB's financial statements are audited by the Auditor General's office annually.

Employee and Customer Surveys (goals 2, 3, 4, 5): The LDB contracts with professional survey companies to ensure that survey results are statistically valid.

Distribution Centre Accuracy Rate: The accuracy of distribution centre orders is determined by random manual checks of orders that are ready for shipment.

2-ID Checking: The LDB contracts with the Liquor Control and Licensing Branch to check GLS compliance with ID-checking requirements by using mystery shoppers. A sample of GLSs is checked at least once per year.

Other Data (goals 3, 4, 5): Measures — including "Total number of additional Signature Stores opened", "Number of LRSs receiving direct shipment", and "Implementation of co-operative responsible-use beverage alcohol programs" — are counted and tracked manually.

Appendix B

Key Departmental Descriptions:

Retail Services

Retail Services includes Distribution, Store Operations, Purchasing, Marketing and Real Estate.

Distribution

Distribution is responsible for processing more than nine million cases of beverage alcohol annually through its two distribution centres located in Vancouver and Kamloops. The department serves both retail and wholesale customers, which include government liquor stores, rural agency stores, licensee retail stores, private wine stores and three other liquor jurisdictions in northern Canada.

Store Operations

The Store Operations department manages 208 government liquor stores throughout the province and administers and supports customer service and sales activities within the stores, including the responsible retailing of beverage alcohol. The department also oversees the Rural Agency Store program.

Purchasing

Purchasing is responsible for purchasing beverage alcohol products that are approved for sale in British Columbia, and manages the inventory of products sold in LDB stores by monitoring daily market and sales trends in order to forecast inventory volume and prevent product stockouts.

Marketing

Marketing is responsible for product and event promotions in government liquor stores, and works with suppliers and manufacturers, as well as store staff, to provide feature products and product information to enhance customer service. Marketing also develops and publishes a monthly price list, the quarterly Matters of Taste magazine, the product content and information for www.bcliquorstores.com, and materials for the LDB's Social Responsibility programs.

Appendix B

Real Estate

The Real Estate department is responsible for the administration and maintenance of the LDB's leased and owned store premises, distribution centres and administrative offices. Real Estate is responsible for enhancing customer service by developing new store locations and upgrading existing properties.

Loss Prevention

This department is responsible for developing, implementing and administering diverse and comprehensive security policies and programs. Loss Prevention is also responsible for the LDB's Emergency Management and Business Continuity programs. Loss Prevention optimizes protection of public financial assets, personnel and the general public.

Legal Services

The Legal Services department provides legal advice to the LDB and directs the Information and Privacy program. The responsibilities of the Information and Privacy Office include: responding to public requests for LDB business information; advising on privacy issues; administering, controlling and preserving LDB records; and providing a sales data service to LDB industry partners such as suppliers, agents, industry associations, private retailers and departments of government.

Corporate Policy

The Corporate Policy department researches and advises on corporate policy issues and works with other government organizations on cross-jurisdictional issues. The department is also responsible for Special Retail Programs and Communications.

Special Retail Programs

Special Retail Programs oversees retail operating authorizations for a variety of private liquor retailers.

Communications

Communications is responsible for the planning and execution of internal and external communications, public relations and media relations. The department develops a variety of corporate publications, including public information materials and the LDB's annual reports and service plans.

Finance

The responsibilities of Finance include: the development and implementation of programs for effective financial control of assets, revenues and expenditures; the preparation and monitoring of revenue, expense and capital budgets; accounting for and reporting on branch operations in accordance with generally accepted accounting principles; and the provision of financial analysis, information and advice as may be required by the LDB. As well as reporting on the LDB's financial performance, this department includes an audit division that ensures accountability to taxpayers and monitors LDB transactions with its business partners.

Appendix B

Information Services

The Information Services department supports the technology required to enable business processes, and provides information relevant to the LDB's business function and security. It assists in the identification of business requirements and provides cost-effective technical solutions in order to achieve organizational goals. This includes research, establishment of standards, procurement, deployment, sustainment and possible disposal of hardware and software plus other related supporting technologies.

Human Resources

This department provides human resources services related to recruitment and selection, employee training and development, labour relations, classification and compensation, leave and benefit administration, organizational development, occupational health and safety, employee counselling and human resources planning. These services ensure the provision of a qualified, competent, stable and productive workforce, a key element in meeting the goals and objectives of the LDB.

Appendix C

Executive Organization

LDB senior management, as of March 31, 2006, includes:

General Manager*
Jay Chambers

Executive Administrative Assistant
Cindy Dahlke

Executive Director, Finance*
Roger Bissoondatt

Executive Director, Retail Services*
Kelly Conrad

Legal Counsel*
Catherine Sloan

Executive Director, Human Resources*
Gordon Zelenika

A/Director, Store Operations
Terry Barley

Director, Distribution
Don Wilcox

Director, Real Estate
Bob Tougas

Director, Loss Prevention*
Donna Morse

Director, Purchasing
Michael Procopio

Director, Marketing
Gary Branham

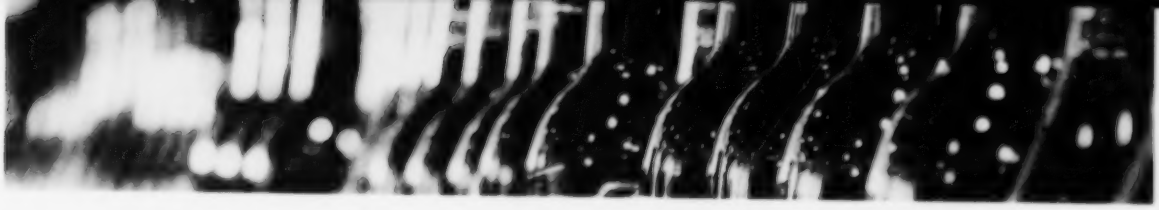
Director, Information Services*
Don Farley

Director, Corporate Policy*
Gordon Hall

Chief Auditor
Rita Bittel

Manager, Communications
Michèle Green

* Members of the Executive Management Committee



Appendix D – Unaudited

Product Sales, Growth and Trends

BEER SALES BY COUNTRY OF ORIGIN – TOP 10

Dollar Sales ($000's) CATEGORY	2005/06	2004/05	2003/04	2002/03	Change 2005/06 vs 2004/05 $	%
CANADA	841,932	832,842	787,279	750,568	9,090	1.1%
MEXICO	39,140	37,910	34,002	32,575	1,230	3.2%
UNITED STATES	30,649	31,458	29,644	25,651	-809	-2.6%
NETHERLANDS	21,250	18,104	16,719	15,078	3,146	17.4%
BELGIUM	18,065	13,052	8,345	5,369	5,012	38.4%
GERMANY	11,179	11,085	10,528	9,343	94	0.9%
IRELAND	9,950	9,031	8,646	8,166	919	10.2%
BRAZIL	4,050	5,195	5,359	91	-1,145	-22.0%
ENGLAND	2,793	2,485	2,407	2,512	308	12.4%
DENMARK	2,714	1,902	1,185	939	812	42.7%

Litre Sales (000's) CATEGORY	2005/06	2004/05	2003/04	2002/03	Change 2005/06 vs 2004/05 Volume	%
CANADA	238,366	238,688	240,210	235,021	-323	-0.1%
MEXICO	8,365	8,116	7,398	7,162	249	3.1%
UNITED STATES	7,383	7,902	7,721	7,073	-519	-6.6%
NETHERLANDS	4,552	3,805	3,547	3,198	747	19.6%
BELGIUM	3,775	2,735	1,773	1,159	1041	38.1%
GERMANY	2,687	2,665	2,592	2,329	22	0.8%
IRELAND	2,159	1,975	1,949	1,876	185	9.3%
BRAZIL	874	1,059	1,096	19	-184	-17.4%
DENMARK	715	498	305	237	217	43.6%
CZECH REPUBLIC	588	509	373	343	79	15.5%

Appendix D – Unaudited

IMPORTED BEER BRANDS – TOP 10

Dollar Sales ($000's) BRAND NAME	2005/06	2004/05	Change vs Previous Year $	Change vs Previous Year %
CORONA EXTRA – (Mexico)	37,492	36,130	1,362	3.8%
MILLER GENUINE DRAFT – (USA) (Bottles)	28,865	26,735	2,129	8.0%
HEINEKEN LAGER – (Netherlands)	18,309	16,652	1,657	9.9%
STELLA ARTOIS – (Belgium)	17,696	12,613	5,083	40.3%
BECKS – (Germany)	4,741	4,640	100	2.2%
GUINNESS PUB DRAUGHT – (Ireland)	3,901	3,350	551	16.4%
A MARCA BAVARIA – (Brazil)	3,838	5,464	-1,626	-29.8%
GUINNESS STOUT – (Ireland)	3,012	2,683	330	12.3%
GROLSCH LAGER – (Netherlands)	2,658	1,708	950	55.6%
WARSTEINER PREMIUM VERUM – (Germany)	2,486	2,644	-158	-6.0%

SPIRIT SALES BY CATEGORY – TOP 10

Dollar Sales ($000's) CATEGORY	2005/06	2004/05	2003/04	2002/03	Change 2004/05 vs 2003/04 $	Change 2004/05 vs 2003/04 %
VODKA	160,284	147,546	135,887	126,306	12,738	8.6%
WHISKY – CANADA	121,195	118,892	114,814	112,042	2,303	1.9%
RUM	101,703	98,177	91,622	87,463	3,526	3.6%
LIQUEURS	95,409	88,970	81,289	78,846	6,439	7.2%
WHISKY – SCOTCH	53,356	51,223	48,460	47,386	2,133	4.2%
GIN	30,975	30,338	28,105	26,489	637	2.1%
BRANDY	14,212	13,869	13,481	13,324	343	2.5%
TEQUILA	13,773	11,979	10,098	9,027	1,794	15.0%
WHISKY – OTHERS	10,274	9,176	8,190	7,723	1,098	12.0%
COGNAC/ARMAGNAC	4,370	4,094	3,961	3,827	276	6.8%

Appendix D – Unaudited

SPIRIT SALES BY CATEGORY – TOP 10 (continued)

Litre Sales (000's) CATEGORY	2005/06	2004/05	2003/04	2002/03	Change 2004/05 vs 2003/04 Litre	%
VODKA	6,566	6,153	5,825	5,458	413	6.7%
WHISKY – CANADA	4,777	4,724	4,681	4,604	54	1.1%
RUM	4,185	4,085	3,943	3,783	99	2.4%
LIQUEURS	3,214	3,019	2,858	2,765	195	6.5%
WHISKY – SCOTCH	1,495	1,460	1,430	1,377	35	2.4%
GIN	1,193	1,169	1,110	1,058	24	2.1%
BRANDY	565	562	566	564	3	0.6%
TEQUILA	349	303	250	206	45	15.0%
WHISKY – OTHERS	318	283	258	246	35	12.3%
COGNAC/ARMAGNAC	44	43	42	41	2	4.0%

SPIRIT BRANDS – TOP 10

Dollar Sales ($000's) BRAND NAME	2005/06	2004/05	Change vs Previous Year $	%
SMIRNOFF RED LABEL VODKA (Canada)	48,005	42,691	5,314	12.4%
BACARDI WHITE RUM (Canada)	34,697	34,701	-4	-0.01%
CROWN ROYAL CANADIAN WHISKY (Canada)	28,201	26,142	2,058	7.9%
WISERS DELUXE CANADIAN WHISKY (Canada)	18,218	16,280	1,938	11.9%
ALBERTA VODKA (Canada)	13,225	13,678	-453	-3.3%
BAILEYS ORIGINAL IRISH CREAM (Ireland)	13,156	12,078	1,078	8.9%
GIBSONS FINEST 12 Y.O. CANADIAN WHISKY (Canada)	12,494	12,374	120	1.0%
POLAR ICE VODKA (Canada)	12,316	10,790	1,427	13.2%
BOLS BOLSKAYA VODKA (Canada)	11,761	11,268	493	4.4%
CANADIAN CLUB CANADIAN WHISKY (Canada)	11,117	12,190	-1,073	-8.8%

Appendix D – Unaudited

Table Wine Sales by Country of Origin – Top 10

Dollar Sales ($000's)					Change 2005/06 vs 2004/05	
CATEGORY	2005/06	2004/05	2003/04	2002/03	$	%
CANADA	242,315	216,724	188,931	172,222	25,591	11.8%
AUSTRALIA	111,095	100,039	76,381	57,318	11,056	11.1%
UNITED STATES	58,072	52,848	46,285	46,731	5,224	9.9%
ITALY	40,783	38,366	40,846	39,331	2,417	6.3%
FRANCE	32,248	30,771	32,102	32,503	1,477	4.8%
CHILE	29,692	28,072	27,835	29,061	1,620	5.8%
SOUTH AFRICA	11,862	9,990	7,419	6,722	1,872	18.7%
ARGENTINA	9,021	7,078	5,006	3,971	1,943	27.5%
SPAIN	7,790	6,251	5,709	4,477	1,539	24.6%
NEW ZEALAND	6,370	4,082	3,457	3,068	2,288	56.1%

Litre Sales (000's)					Change 2005/06 vs 2004/05	
CATEGORY	2005/06	2004/05	2003/04	2002/03	Litre	%
CANADA	22,299	20,474	18,944	17,807	1,825	8.9%
AUSTRALIA	7,206	6,502	4,977	3,690	704	10.8%
UNITED STATES	4,267	4,044	3,463	3,585	223	5.5%
ITALY	2,954	2,881	3,325	3,242	73	2.5%
CHILE	2,624	2,517	2,531	2,651	107	4.3%
FRANCE	1,974	1,964	2,085	2,332	10	0.5%
SOUTH AFRICA	921	775	593	540	146	18.9%
ARGENTINA	762	630	438	323	132	21.0%
SPAIN	504	434	440	327	69	16.0%
GERMANY	422	413	437	425	9	2.2%

Appendix D – Unaudited

Red Table Wine Brands – Top 10

Dollar Sales ($000's) BRAND NAME	2005/06	2004/05	Change vs Previous Year $	Change vs Previous Year %
YELLOW TAIL – SHIRAZ (Australia)	10,581	9,552	1,028	10.8%
WOLF BLASS YELLOW LABEL – CABERNET SAUVIGNON (Australia)	5,402	5,286	116	2.2%
JACKSON-TRIGGS – PROPRIETORS' SELECTION MERLOT (Canada)	4,482	4,772	-289	-6.1%
SAWMILL CREEK – BARREL SELECT MERLOT (Canada)	4,011	3,601	410	11.4%
YELLOW TAIL – MERLOT (Australia)	3,381	3,041	340	11.2%
JACKSON-TRIGGS – PROPRIETORS' SELECTION CAB. SAUVIGNON (Canada)	3,071	3,018	54	1.8%
MISSION HILL – SONORA RANCH MERLOT (Canada)	2,889	3,267	-378	-11.6%
CALONA – ROYAL RED (Canada)	2,677	2,369	308	13.0%
MISSION RIDGE – PREMIUM DRY RED (Canada)	2,576	2,701	-125	-4.6%
DOMAINE D'OR – RED (Canada)	2,537	2,445	92	3.8%

White Table Wine Brands – Top 10

Dollar Sales ($000's) BRAND NAME	2005/06	2004/05	Change vs Previous Year $	Change vs Previous Year %
DOMAINE D'OR (Canada)	4,527	4,739	-212	-4.5%
SAWMILL CREEK – BARREL SELECT (Canada)	4,265	4,098	167	4.1%
MISSION RIDGE – PREMIUM DRY (Canada)	3,939	4,126	-187	-4.5%
YELLOW TAIL – CHARDONNAY (Australia)	3,692	3,233	459	14.2%
JACKSON TRIGGS – PROPRIETORS SELECTION SAUVIGNON BLANC (Canada)	3,657	3,248	409	12.6%
LINDEMANS BIN 65 – CHARDONNAY (Australia)	3,480	3,597	-117	-3.3%
SCHLOSS LADERHEIM (Canada)	3,232	3,392	-160	-4.7%
JACKSON-TRIGGS – PROPRIETORS' SELECTION CHARDONNAY (Canada)	3,041	3,157	-116	-3.7%
SOLA (Canada)	2,683	2,404	278	11.6%
HOCHTALER (Canada)	2,466	2,670	-204	-7.6%

Appendix D – Unaudited

British Columbia VQA Table Wines – Top 10

Dollar Sales ($000's) BRAND NAME	2005/06	2004/05	Change vs Previous Year $	Change vs Previous Year %
SUMAC RIDGE – PRIVATE RESERVE GEWURZTRAMINER 02/03	1,447	1,187	260	21.9%
MISSION HILL – FIVE VINEYARDS CABERNET MERLOT 02/03	1,404	1,495	-92	-6.1%
MISSION HILL – FIVE VINEYARDS PINOT GRIGIO 03/04	1,320	850	470	55.4%
BURROWING OWL – MERLOT 01/02	1,224	1,248	-24	-1.9%
SANDHILL – MERLOT 02/03	1,221	887	335	37.7%
TINHORN CREEK – MERLOT 01/02	1,018	1,067	-49	-4.6%
MISSION HILL – FIVE VINEYARDS CABERNET MERLOT BIN 88	968	139	829	596.1%
MISSION HILL – FIVE VINEYARDS MERLOT 02/03	949	765	184	24.0%
BURROWING OWL – PINOT GRIS 01/02	947	1,117	-170	-15.2%
TINHORN CREEK – PINOT NOIR 02/03	942	607	334	55.1%

Refreshment Brands – Top 10

Dollar Sales ($000's) BRAND NAME	2005/06	2004/05	Change vs Previous Year $	Change vs Previous Year %
SMIRNOFF – ICE	12,466	13,097	16,077	-4.8%
GROWERS CIDER CO. – EXTRA DRY APPLE	4,555	4,274	3,946	6.6%
GROWERS CIDER CO. – NATURAL PEACH	3,554	3,330	3,100	6.7%
MIKE'S – HARD LEMONADE	3,302	3,329	3,468	-0.8%
BACARDI BREEZER – TROPICAL ORANGE SMOOTHIE	2,793	3,316	2,280	-15.8%
MIKE'S – HARD CRANBERRY LEMONADE	1,990	2,172	2,379	-8.4%
OKANAGAN PREMIUM – CRISP APPLE	1,841	1,932	2,147	-4.7%
BACARDI BREEZER – ISLAND PINEAPPLE	1,765	2,107	312	-16.2%
EXTRA – HARD GLACIER BERRY	1,700	1,864	2,308	-8.8%
OKANAGAN PREMIUM – HARVEST PEAR	1,669	1,665	1,657	0.3%

Glossary

Agency Stores

Privately-operated liquor outlets appointed under Section 18(5) of the *Liquor Distribution Act*. These include rural agency stores, independent wine stores, and BC liquor manufacturer's stores.

Agent

An individual, partnership or company representing a supplier in accordance with a letter of authorization accepted by the LDB, or an individual who is duly licensed pursuant to section 52 of the *Liquor Control and Licensing Act* to represent an authorized agent.

Beverage Alcohol

Any potable liquid containing more than one per cent ethyl alcohol by volume.

Brew Pub

An establishment licensed to manufacture beer that is sold in an attached pub.

Capital Assets

An asset, whether tangible or intangible, intended for use by the LDB for more than a single fiscal year. Tangible assets have a physical identity such as land, buildings and equipment. Intangible assets do not have a physical identity (for example, goodwill).

Capital Expenditures

Money spent to acquire or upgrade capital assets.

Distillery

Establishments licensed to manufacture distilled liquor products such as whisky, rum, vodka, gin and liqueurs.

Distribution Centre

A branch-operated facility that is used to store and supply products to government liquor stores and wholesale customers. The LDB has one distribution centre in Kamloops and one in Vancouver.

Fiscal Year

The start and end of the year for business and financial purposes. The LDB's fiscal year runs from April 1 to March 31.

Full Time Equivalent (FTE)

The equivalent of one person working 1,827 hours in one year.

Government Liquor Store (GLS)

The retailing arm of the LDB, these government-owned and operated liquor stores sell beverage alcohol to retail and wholesale customers. They are also referred to as BC Liquor Stores.

Gross Margin

Excess of sales over the inventory cost of the goods sold. Also called gross profit and can be expressed as a percentage of sales.

Gross Sales

Total sales dollars, before any applicable discounts, brought in through LDB sales in the fiscal year.

Independent Wine Store

A stand-alone wine store that sells imported and domestic wine, cider and wine coolers.

Inventory Turnover

Inventory turnover ratio expresses the relationship between the cost of goods sold (or used) and the average inventory balance. It indicates the number of times the average inventory is sold during the year.

Glossary

Licensee Retail Store (LRS)
These private outlets are licensed to liquor primary licence holders by the Liquor Control and Licensing Branch to sell wine, beer, cider, coolers and spirits to the public.

Liquor Control and Licensing Branch (LCLB)
The LCLB enforces the *Liquor Control and Licensing Act*, issues licenses for the manufacturing and selling of liquor, and supervises the service of liquor in licensed establishments.

Liquor Distribution Branch (LDB)
The LDB is responsible for the importation, warehousing, distribution and retailing of beverage alcohol in the province of British Columbia, and operates government liquor stores and distribution centres in the province. The LDB is also responsible for the appointment of private retail agency stores.

Net Income
The total amount of profit that the LDB makes in the fiscal year.

Operating Expenses
Expenses arising in the course of running a business.

Operating Income
Income earned from operations.

Private Wine Store
A private retail store, appointed under the *Liquor Distribution Act*, that sells wine. Most private wine stores are operated by British Columbia wineries.

Retail Customers
Customers who buy beverage alcohol in government liquor stores for their own personal use. Also known as "Counter Customers".

Rural Agency Store
Rural Agency Stores are general merchandise stores or grocery stores in rural communities that are authorized by the LDB to provide liquor service where it is not viable for a government liquor store to operate.

Service Plan
A high-level planning document that summarizes for the public and stakeholders the core business of each Crown agency, the services provided, the actions planned and the expected results for each fiscal year.

Signature Stores
Large government liquor stores with a wide selection of products, enhanced customer service, and an expanded choice of British Columbia wines. In the last fiscal year, Signature Stores have been opened in Abbotsford and Surrey.

Supplier
A supplier is a manufacturer that provides beverage alcohol products to the LDB.

Vintners Quality Alliance (VQA)
A quality designation for wines administered by the British Columbia Wine Institute. British Columbia VQA wines are made entirely from grapes grown in British Columbia and are certified by a panel of experts.

Wholesale Customers
Wholesale customers are private retail stores and licensed establishments that buy beverage alcohol from the LDB for resale.

Contact Information

For more information about the Liquor Distribution Branch, or to request more copies of this Annual Report, please contact the LDB Communications department:

via phone 604-252-3029

via e-email communications@bcliquorstores.com

The British Columbia Liquor Distribution Branch 2005/2006 Annual Report is available online at **www.bcliquorstores.com**

National Library of Canada Cataloguing in Publication Data
British Columbia. Liquor Distribution Branch.
Annual report. – 57th (Apr. 1, 1977/Mar. 31, 1978)-

Annual.
Report year ends Mar. 31.
Continues: British Columbia. Liquor Distribution Branch. Liquor Distribution Branch and Liquor Control and Licensing Branch: annual real report. ISSN 0706-3997.
ISSN 0710-8648 = Annual report – Liquor Distribution Branch
1. British Columbia. Liquor Distribution Branch – Periodicals. 2. Liquor industry – British Columbia – Periodicals. I. Title.
HV5087.C2B74 354.7110076'1 CB1-080662-2

WWW.BCLIQUORSTORES.COM